

OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

In the Matter of:)
) Docket No.: R2006-1
POSTAL RATE AND FEE CHANGES)

VOLUME #5

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POSTAL RATE COMMISSION

In the Matter of:)
) Docket No.: R2006-1
 POSTAL RATE AND FEE CHANGES)

Suite 200
 Postal Rate Commission
 901 New York Avenue, N.W.
 Washington, D.C.

Volume 5
 Tuesday, August 8, 2006

The above-entitled matter came on for hearing
 pursuant to notice, at 9:31 a.m.

BEFORE:

HON. GEORGE A. OMAS, CHAIRMAN
 HON. DAWN A. TISDALE, VICE-CHAIRMAN
 HON. TONY HAMMOND, COMMISSIONER
 HON. RUTH Y. GOLDWAY, COMMISSIONER

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NORMA B. NIETO
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 VIRGINIA J. MAYES
 JAMES M. KIEFER

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
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E X H I B I T S

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E X H I B I T S

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(9:31 a.m.)

CHAIRMAN OMAS: Good morning. Today we continue hearings to receive the testimony of Postal Service witnesses in support of Docket No. R2006-1, Request for Rate and Fee Changes.

I have a procedural matter. This primarily is addressed to the Postal Service counsel. There have been a significant number of discovery responses that have been revised at the last minute. We appreciate your efforts to assure that responses are accurate on the day they are entered into evidence. However, please when a revised answer is filed include the word Revised and the date of the revision on each of the answers. Thank you very much.

Does anyone have a procedural matter to discuss before we continue today?

(No response.)

CHAIRMAN OMAS: Four witnesses are scheduled to appear today. They are Witness Nieto, Bradley, Mayes and Kiefer.

Ms. Portonovo, would you please identify our first witness?

MS. PORTONOV0: Thank you, Mr. Chairman.

The Postal Service calls Norma B. Nieto to the stand.

1 CHAIRMAN OMAS: Would you please stand, Ms.
2 Nieto? Would you raise your right hand?

3 Whereupon,

4 NORMA B. NIETO

5 having been duly sworn, was called as a
6 witness and was examined and testified as follows:

7 CHAIRMAN OMAS: Please be seated.

8 (The document referred to was
9 marked for identification as
10 Exhibit No. USPS-T-24.)

11 DIRECT EXAMINATION

12 BY MS. PORTONOVO

13 Q Ms. Nieto, in front of you you should have
14 two copies of a document --

15 CHAIRMAN OMAS: I think you need to speak a
16 little louder, please.

17 MS. PORTONOVO: Sorry. Can you hear me now?

18 CHAIRMAN OMAS: Yes.

19 MS. PORTONOVO: Thank you.

20 BY MS. PORTONOVO

21 Q Ms. Nieto, in front of you you should have
22 two copies of a document entitled Direct Testimony of
23 Norma B. Nieto on Behalf of the United States Postal
24 Service marked as USPS-T-24.

25 Were the contents of these documents

1 prepared by you or under your direct supervision?

2 A Yes.

3 Q If the contents were given as oral testimony
4 today, would they be the same?

5 A Yes.

6 Q And do you have any library references
7 associated with this testimony?

8 A Yes, I do.

9 Q And would they be USPS-LR-L-78 and 79?

10 A Yes. There's one additional library
11 reference.

12 MS. PORTONOVO: That's okay.

13 Mr. Chairman, I think we'll now hand two
14 copies of the testimony to the reporter and ask that
15 they and the associated library references be entered
16 into evidence.

17 CHAIRMAN OMAS: Is there any objection?

18 (No response.)

19 CHAIRMAN OMAS: Hearing none, I will direct
20 counsel to provide the reporter with two copies of the
21 corrected direct testimony of Norma B. Nieto.

22 That testimony is received into evidence.

23 However, as is our practice, it will not be
24 transcribed.

25 //

1 (The document referred to,
2 previously identified as
3 Exhibit No. USPS-T-24, was
4 received in evidence.)

5 CHAIRMAN OMAS: Ms. Nieto, have you had an
6 opportunity to examine the packet of designated
7 written cross-examination that was made available to
8 you in the hearing room this morning?

9 THE WITNESS: Yes, I have.

10 CHAIRMAN OMAS: If the questions contained
11 in that packet were posed to you orally today, would
12 your answers be the same as those you provided to us
13 previously in writing?

14 THE WITNESS: Yes, they would be.

15 CHAIRMAN OMAS: Are there any corrections or
16 additions you would like to make to those answers?

17 THE WITNESS: No.

18 CHAIRMAN OMAS: Counsel, would you please
19 provide two copies of the corrected designated written
20 cross-examination of Witness Nieto to the reporter?

21 That material is received into evidence and
22 is to be transcribed into the record.

23 //

24 //

25 //

1 (The document referred to was
2 marked for identification as
3 Exhibit No. USPS-T-24 and was
4 received in evidence.)

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS NORMA B. NIETO
(USPS-T-24)

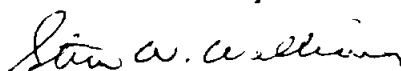
Party

Interrogatories

Office of the Consumer Advocate

OCA/USPS-T24-1-12

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Steven W. Williams".

Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS NORMA B. NIETO (T-24)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
OCA/USPS-T24-1	OCA
OCA/USPS-T24-2	OCA
OCA/USPS-T24-3	OCA
OCA/USPS-T24-4	OCA
OCA/USPS-T24-5	OCA
OCA/USPS-T24-6	OCA
OCA/USPS-T24-7	OCA
OCA/USPS-T24-8	OCA
OCA/USPS-T24-9	OCA
OCA/USPS-T24-10	OCA
OCA/USPS-T24-11	OCA
OCA/USPS-T24-12	OCA

Response of Postal Service Witness Norma B. Nieto
To Interrogatories Posed by OCA

OCA/USPS-T24-1. This interrogatory requests information on the selection of sites for the collection of data as outlined in Library Reference USPS-LR-L-78.

- (a) Please provide the analysis substantiating the selection of \$537,786 for stratification purposes between large and small sites.
- (b) Please provide the total number of large sites from the 15,096 post offices with the POS-ONE system.
- (c) Please provide the total number of small sites from the 15,096 post offices with the POS-ONE system.
- (d) Please provide the mean and standard deviation for total revenue in 2005 for large sites.
- (e) Please provide the mean and standard deviation for total revenue in 2005 for small sites.
- (f) Please provide the mean and standard deviation for POS-ONE sites in 2005.
- (g) Please provide the analysis substantiating the selection of 27 sites rather than some other number of sites for data collection purposes.
- (h) Please provide the analysis substantiating the decision to collect data from two large and one small site, rather than some other proportion and number of sites.

Response:

- a. \$537,786 represents the median annual revenue per site and was chosen as the measure of central tendency used to split the sample into two strata with an approximately equal number of sites in each stratum.
- b. 7,544.
- c. 7,542.
- d. The mean annual revenue for the large sites was \$1,348,940. The standard deviation was \$930,351.

Response of Postal Service Witness Norma B. Nieto
To Interrogatories Posed by OCA

- e. The mean annual revenue for the small sites was \$245,670. The standard deviation was \$149,923.
- f. Assuming it is the data on annual revenue that is requested for the POS-One sites, the mean revenue for all sites was \$797,013. The standard deviation was \$864,918.
- g. As stated in my "Purpose and Scope" section the purpose of my testimony was to update the transaction time study which supported the estimation of transaction supply side variabilities for window service costs. The original sample selection, which consisted of 19 sites, was first introduced by the Postal Service in Docket No. R97-1. In so far as I could determine, no party to that proceeding criticized or took issue with the approach or the results. The Commission accepted it without criticism or suggestion for improvement or revision. The resulting variabilities were used by both the Postal Service and the Commission in Docket No. R2000-1, Docket No. R2001-1, and Docket No. R2005-1. In none of those dockets did any party criticize or object to any part of the analysis. Given this history, it seemed appropriate to adopt a similar sample size. The sample size was increased because of the availability of additional data collectors, and 3 offices were chosen from each of the 9 USPS areas to provide equal geographic representation.

Response of Postal Service Witness Norma B. Nieto
To Interrogatories Posed by OCA

- h. The proportion of 2 large sites to 1 small site was chosen to balance the considerations of maximizing the number of transactions observed with including small offices. Including more large offices than small is likely to increase the number of transactions observed, but small offices were also included to account for the possibility that they might have differences in transaction times despite having fewer transactions per day. Note that the econometric analysis recommended by Professor Bradley includes a site-specific categorical variable for each office which accounts for possible size effects.

Response of Postal Service Witness Norma B. Nieto
To Interrogatories Posed by OCA

OCA/USPS-T24-2. At the 27 sites for data collection, the Postal Service ultimately obtained a total of 7915 observations, broken down between varieties of products.

- (a) Did you perform an analysis of the number of transaction observations needed for each product in order to determine whether the sample was statistically representative? If your answer is affirmative, please provide the study. If your answer is negative, please discuss in detail, indicating how such a study could be conducted and why such a study was not conducted.
- (b) Are there any products in your sample for which the sample is not statistically meaningful?

Response:

a. & b. No analysis of the number of transaction observations needed for each product was performed, because the study was not designed to provide national estimates of product-specific transaction times or product volumes. The notion of "statistically representative" product observations is not well-defined in the context of this update because many transactions contain multiple products. Rather, the objective of the transaction time study was to create a database that contained sufficient transactions to allow an update of the established transaction time econometric model.

Response of Postal Service Witness Norma B. Nieto
To Interrogatories Posed by OCA

OCA/USPS-T24-3. This interrogatory requests information on the collection of time information relative to transactions as discussed in Library Reference USPS-LR-L-78 at page 10. You indicate that "...it was determined that data collectors could possibly record either the start of an activity (transaction, or clerk moving away from the window) or the end, since the recording of the beginning of a new activity was simultaneous with the end of the previous activity, or vice versa." In your testimony at page 6 you indicate that data collectors recorded time of the customer approaching the window, time the transaction began, and time the transaction ended.

- (a) Please reconcile what appears to be conflicting information and please indicate how time was recorded.
- (b) If business were slow at a site and assuming that time data were collected as indicated in Library Reference USPS-LR-L-78, is there not the possibility that a substantial amount of time would be recorded during which time the clerk was simply awaiting the arrival of a customer? Please confirm that such time could be a few seconds, with the casual arrival of customers or even a few minutes at a slow time of day. If you do not confirm, please explain.
- (c) How was waiting time between transactions recorded?
- (d) Was waiting time included as part of the measured time related to transactions? Please explain.
- (e) You discussed the "walk" part of the transaction in your testimony on page 6. Is it correct that the "walk" part of the transaction was included in some transactions and not in others? Please explain.
- (f) If the "walk" time, as identified in (e) or the waiting time, as identified in (b), were included in transactions, is it possible that time for an identical transaction could be significantly different from office to office—depending not upon type of transaction but, rather, on office layout and level of patronage? Please explain.

Response:

- a. The reference in USPS-LR-L-78 refers to the recording methodology options tested during the pilot test. The reference in my testimony on page 6 correctly describes the final methodology used to record time in the actual study.
- b. Confirmed, that if indeed there was time waiting for customers, the study would identify it as waiting time.

Response of Postal Service Witness Norma B. Nieto
To Interrogatories Posed by OCA

- c. After each transaction ended, data collectors continued to observe the clerk activities. If the clerk was waiting for a customer, the data collector then indicated the activity as "Clerk Waiting for Customer" and recorded when the clerk stopped waiting for a customer and began the next activity.
- d. No. The purpose of the transaction time study was to construct a database permitting an update of the econometric model of transaction time, thus any non-transactional time was not relevant.
- e. That is not correct. The "walk" part of the transaction was recorded for those transactions in which the walk was long enough to allow a data collector to record a separate measurement. However, the time associated with the "walk" part of the transaction was not included in the calculation of transaction time for any transactions, for the reason discussed in part (d) above.
- f. Yes, it is possible. However, neither the waiting time nor the walk time was included in the transaction time.

Response of Postal Service Witness Norma B. Nieto
To Interrogatories Posed by OCA

OCA/USPS-T24-4. The purpose of this interrogatory is to request additional information concerning "nested" transactions, as discussed on page 11 of Library Reference USPS-LR-L-78. Please list the number of nested transactions retained and the number of nested transactions deleted by product type.

Response:

The number of nested transactions retained was 133, and the number of nested transactions which were not included in the final data set was 57. Product type information for the nested transactions that were not included is not available, because they were not matched to the POS-data that provides the product-specific information. The table below provides the product-type information for the nested transactions retained. The counts provided in the table that follows indicate the number of transactions in which that type of product was transacted, not the number of items of the product that were sold.

Response of Postal Service Witness Norma B. Nieto
To Interrogatories Posed by OCA

Product Category	Number of Nested Transactions Containing Type of Product
Stamps Bulk	15
Stamps Non-Bulk	11
First Class	23
Priority Mail	31
Express Mail	21
Parcel Post	5
Other Weigh & Rate	1
PVI	0
International	12
Money Order	7
Certified Mail	15
Insurance	5
Registered	2
Other Special Services	22
Stamped Envelopes	7
Retail Products	7
PO Box	0
Passport	0
General Services	1
Other	6

Response of Postal Service Witness Norma B. Nieto
To Interrogatories Posed by OCA

OCA/USPS-T24-5. The Postal Service gathered the transaction data during April and May. Do you have any studies or experience to confirm that the postal transactions occurring during these two months are representative of postal transactions for an entire year? Please explain.

Response:

The goal of the study was not produce an estimate of total annual transactions by type but rather to produce a dataset that permitted an update of the established transaction time econometric model. Based upon the acceptance of the previous study which underlies the established model, it was reasonable to expect that a similar but larger data set would be sufficient for an update. In addition, prior to conducting the study, I consulted with USPS Retail Operations experts to determine whether there were any issues associated with the selected period of time. In order to minimize the potential disruption of having data collectors visit post offices during tax time, the study was conducted after April 15th.

Response of Postal Service Witness Norma B. Nieto
To Interrogatories Posed by OCA

OCA/USPS-T24-6. For each type of product, please provide information on the number of observations gathered and the number of observations that actually were in the database.

Response:

The total number of transactions observed by the data collectors was 9,459. The total number of observations that were in the database provided to witness Bradley was 7,915. As described in my testimony and library references, product-specific information for each transaction came from POS-ONE. The 1,535 transactions not included in the final database were not included because they could not be matched with the product information from the POS-ONE data. Because product information could not be obtained, these transactions cannot be broken down by product type. The requested product type information for the 7,915 transactions included in the database can be found in the table below. Please note that transactions contain multiple products and multiple quantities of products. The counts provided in the table that follows indicate the number of transactions in which that type of product was transacted, not the number of items of the product that were sold.

Response of Postal Service Witness Norma B. Nieto
To Interrogatories Posed by OCA

Product Category	Number of Transactions Containing Type of Product
Stamps Bulk	2043
Stamps Non-Bulk	1278
First Class	1789
Priority Mail	1555
Express Mail	326
Parcel Post	295
Other Weigh & Rate	162
PVI	114
International	371
Money Order	862
Certified Mail	394
Insurance	316
Registered	16
Other Special Services	845
Stamped Envelopes	166
Retail Products	363
PO Box	86
Passport	47
General Services	528
Other	443

Response of Postal Service Witness Norma B. Nieto
To Interrogatories Posed by OCA

OCA/USPS-T24-7. For each location and each day, please indicate the number of clerks from whom transactions data were gathered.

Response:

The table below indicates number of clerks observed for each location per day. Note that data collectors were assigned to registers, not clerks. In offices where clerks switched between registers, the data collector remained at the designated register.

LocID	Day 1	Day 2
2303	1	1
4079	2	2
4881	3	3
20171	2	2
21799	2	3
27500	3	2
30283	4	4
30442	4	2
36211	4	2
39717	3	3
40832	4	3
69225	4	6
69759	3	3
70364	2	2
84745	4	4
85098	1	2
98456	2	2
107799	1	1
116806	2	2
118483	5	3
119685	2	2
119973	3	2
120905	4	4
123775	3	3
126721	2	2
127869	3	4
128644	2	2

Response of Postal Service Witness Norma B. Nieto
To Interrogatories Posed by OCA

OCA/USPS-T24-8. One would expect that, in addition to processing transactions, clerks also have other periods of time during which they may perform other tasks, take breaks, or standby ready to serve. Was any of this time included in the transaction time recorded in the study? Please explain.

Response:

No. The data collectors did record time associated with clerks performing other tasks, taking breaks, or waiting for customers. However, none of the time associated with these non-transactional activities was included as transaction time in the study or provided to witness Bradley for inclusion in the update of the established econometric model.

Response of Postal Service Witness Norma B. Nieto
To Interrogatories Posed by the OCA

OCA/USPS-T24-9. The purpose of this interrogatory is to attempt to understand the characteristics of window transactions as related to site size. Your answer to OCA/USPS-T24-6 indicates that 1535 transactions were not included in the final database of 7915 transactions.

- (a) How many of the 1535 transactions were from small sites, and how many were from large sites?
- (b) Of the 7915 transactions, how many of the transactions were from small sites, and how many were from large sites?

Response

a. & b. See table below.

Strata	Excluded	Included
Large	980	6074
Small	555	1841
Total	1535	7915

Note that of the 555 excluded transactions from the Small strata, 235 came from a single day/office and resulted from a one-time data upload malfunction in the POS-ONE data warehouse. Outside this exception, the excluded transactions were evenly distributed among the sites both large and small.

Response of Postal Service Witness Norma B. Nieto
To Interrogatories Posed by the OCA

OCA/USPS-T24-10. The purpose of this interrogatory is to develop information on whether the database is adequate for the analysis. Your answer to OCA/USPS-T24-2 indicates that you did not perform an analysis of the number of transaction observations needed for each product but that, "Rather, the objective of the transaction time study was to create a database that contained sufficient transactions to allow an update of the established transaction time econometric model."

- (a) How did you determine that you had "sufficient transactions"?
- (b) Please explain the statistical methodology that you used to determine the number of sites, the number of observations per site, and the stratification that guaranteed a level of confidence (please state the level of confidence) that on a product-by-product basis you had "sufficient transactions."
- (c) Assuming that you had "n" types of transactions, with some transactions containing single products and some transactions containing multiple products, please explain how you would determine the number of observations required for a statistically accurate sample.

Response:

- a. Since this study was an update of the transaction time study used to support the estimation of the transaction supply side variabilities for window service costs originally presented by the Postal Service in Docket No. R97-1, "sufficient transactions" was defined as a number of transactions approximately equal to or greater than the number of transactions used to estimate the transaction supply side variabilities presented in Docket No. R97-1 and used by both the Postal Service and the Commission in Docket No. R2000-1, Docket No. R2001-1, and Docket No. R2005-1, which was 7,175 transactions.
- b. No formal statistical methodology was used to guarantee a level of confidence at the product-level as that was not a pre-specified objective in the study update. Rather, as stated above, the objective for this transaction time study update was

Response of Postal Service Witness Norma B. Nieto
To Interrogatories Posed by the OCA

to obtain a number of transactions similar to that of the original transaction time study presented by the Postal Service in Docket No. R97-1. As stated previously, in so far as I could determine, no party to that proceeding criticized or took issue with the approach or the results. The Commission accepted it without criticism or suggestion for improvement or revision. The resulting variabilities were used by both the Postal Service and the Commission in Docket No. R2000-1, Docket No. R2001-1, and Docket No. R2005-1. In none of those dockets did any party criticize or object to any part of the analysis. Given this history, it seemed appropriate to adopt a similar study design and sample size, and adjust as necessary to reflect any operational changes since then. Listed below are the elements of the study design reviewed.

1) Geographic Stratification of Sites – In the R97-1 study, the sample consisted of offices selected from each of the ten USPS Areas. I consulted with experts in Retail Operations to confirm that the Area was still the appropriate administrative and geographic division for the purpose of this study. Since USPS now had nine Areas instead of ten, the nine Areas were used as the starting point for selecting the sites.

2) Number of Offices Sampled in Each Area – In the R97-1 study, the sample consisted of two offices selected from each of the ten USPS Areas, for a total of 20 sampled offices. Again, because there were no criticisms or suggestions for improvements in the sample size for the R97-1 study, two offices from each Area

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was used as the baseline. In order to allow for unforeseen issues, the sample size was increased by one additional office per Area, which was the most the sample could be increased by given the availability of data collector resources and the time available to complete the study.

3) Number of Days and Windows Observed Per Site – In the R97-1 study, the sampling plan consisted of two data collectors observing for two days at each office (with exceptions for one-window offices). Again, because there were no criticisms or suggestions for improvements in the sampling plan for the R97-1 study, and consultations with Retail Operations experts did not necessitate any changes, the same sampling plan was used in this study.

4) Size Stratification – In the R97-1 study, the stratification by office size was based on the CAG designation as a proxy for office size. When the R97-1 transaction time study was conducted, POS-ONE had not been deployed, and there existed various methods of conducting transactions, including the IRT terminals and manual entry which were closely associated with the CAG (and thus size) of the office. Because this study update would include only POS-ONE terminal sites (which are by definition the largest offices as determined by annual revenue) and due to the availability of revenue per site data from the POS-ONE database, I instead used revenue per site as the indicator of office size. Please refer to my response to OCA/USPS-T24-1, parts a. and h. for how strata and the number of offices in each were selected.

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- c. Without a definition of exactly what is meant by "statistically accurate" in the context of the transaction supply side variability estimation model, I cannot provide a response. However, if one simply wished to obtain a target level of single and multiple transaction observations, one could calculate a historical average of the number of single and multiple transactions per day for the universe of offices, and estimate the number of office-days needed to obtain the level of desired transactions, and add additional office-days to allow for a desired margin to allow for any data collection errors and other issues.

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OCA/USPS-T24-11. The purpose of this transaction is to develop data on the overall activities at locations. In OCA/USPS-T24-7 you provide by location and day the number of data collectors assigned to registers.

- (a) Please indicate, by location and day, the total number of hours for which a data collector collected data on transactions, including waiting times, breaks, and all other activities.
- (b) Please provide, by location and day, the total number of hours for which non-transactional time was measured, broken down by type of non-transactional activity.

Response:

- a. Please refer to the Excel spreadsheet "AttachmentOCA11.xls" contained in USPS-LR-L-159. Hours for multiple data collectors on the same day are combined.
- b. Please refer to the Excel spreadsheet "AttachmentOCA11.xls" contained in USPS-LR-L-159. As has been noted in my previous interrogatory responses, the data on activities other than transactions was not used by either myself or witness Bradley. As such, this data has not been cleaned or validated. The main purpose of collecting the non-transactional time data was to account for time throughout the day, allowing for easier matching to the POS-data.

Because the data collector's first priority was to collect the transaction time data by ensuring the observation of the beginning and the end of the customer transaction, data collectors had discretion in assigning activity codes to non-transactional time. Note also that data collectors did not record clerk breaks

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explicitly. Time associated with clerk breaks could be included in time for data collectors breaks, or time recorded as Clerk Away from the Window.

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OCA/USPS-T24-12. The purpose of this interrogatory is to obtain data on "walk" time, which appears to be an integral part of a transaction, given that a customer must walk to a window to perform a transaction. Please turn to your response to OCA/USPS-T24-3, where you indicate that "The "walk" part of the transaction was recorded for those transactions in which the walk was long enough to allow a data collector to record a separate measurement." Please provide data for the "walk" part of the transaction for each of the 7915 transactions, recognizing that in many cases the "walk" time will be zero.

Response:

Please refer to the Excel spreadsheet "AttachmentOCA12.xls" contained in USPS-LR-L-159. This Excel spreadsheet contains the data originally provided in USPS-LR-L-79 as WSCleanPOSData.xls with the walk time added as a column, with zeros indicating no specific walk time was recorded for the transaction.

1 CHAIRMAN OMAS: Is there any additional
2 written cross-examination for Witness Nieto?

3 (No response.)

4 CHAIRMAN OMAS: This brings us to oral
5 cross-examination.

6 One participant requested oral cross-
7 examination, the Office of Consumer Advocate. Is
8 there any other participant who would like to cross-
9 examine Witness Nieto?

10 (No response.)

11 CHAIRMAN OMAS: There being none, Mr.
12 Richardson, you may begin.

13 MR. RICHARDSON: Thank you, Mr. Chairman.
14 I'm Ken Richardson from the Office of the Consumer
15 Advocate.

16 CROSS-EXAMINATION

17 BY MR. RICHARDSON:

18 Q Good morning, Ms. Nieto.

19 A Good morning.

20 Q I would like you to turn to your response to
21 our Interrogatory OCA/USPS-T-24-4. That discussed
22 nested window transactions. Do you have that in front
23 of you?

24 A Yes.

25 Q In that response you indicated that there

1 were 133 nested transactions that we obtained and that
2 57 were not included in the final data set, which
3 would suggest there were 190 total nested window
4 transactions. Is that correct?

5 A Correct.

6 Q And so of 190 nested window transactions,
7 you did not include 57 of those?

8 A Correct.

9 Q Now, our arithmetic shows that's about 30
10 percent, or I think more precisely 30.3 percent of the
11 nested transactions.

12 Now, in your view would that number be
13 considered a lot or a little number in terms of those
14 transactions dropped compared to the total?

15 A I think in regards to the overall number of
16 transactions I would say that 57 is a small number of
17 transactions.

18 Q That it's a small number to drop compared to
19 the total in terms of doing a statistical study?

20 A Right. The nested transactions do not have
21 extremely different characteristics than other
22 transactions. Therefore, dropping those 57 out of the
23 190 that were included does not create any unnecessary
24 issues. It's just a transaction that happens to be
25 separated into two parts.

1 Q You're suggesting that the 190 is part of a
2 larger number, the total number of data, the 9,459
3 transactions?

4 A That's correct.

5 Q You refer to those transactions in your
6 response to OCA/USPS-T-24-6, I believe. Is that
7 correct?

8 A Correct.

9 Q There you show the total number of
10 transactions was 9,459 and that 1,535 transactions
11 were not included in the final database.

12 A Correct.

13 Q Again, our arithmetic shows that that would
14 be 16 percent of the total number of transactions were
15 dropped.

16 When looking at the overall number of
17 transactions, would you consider that to be a large
18 number or a lot of transactions dropped when you're
19 doing a statistical study?

20 A I think I would say it depends upon the
21 reasons that they were dropped and whether if the
22 transactions were dropped because of data collector
23 error in doing the transaction timing analysis I would
24 feel that it was still within reason, but perhaps a
25 little on the high side.

1 However, those transactions were dropped for
2 a different reason, which is related to the POS
3 matching process that we undertook. Therefore, there
4 was nothing inherently wrong with the data themselves.

5 The data just could not be matched to the
6 product specific information, so I don't have specific
7 concerns about the number of transactions that were
8 dropped because we ended up with a number of
9 transactions that were equal to or greater than the
10 transactions in the previous study.

11 Q Well, if you couldn't match up the
12 transactions with the POS terminals couldn't that have
13 been due to data collection error?

14 A No. The main reason that transactions were
15 not able to be matched up was because there was some
16 ambiguity in the transactions, in which transactions
17 were matched.

18 If the data collector did not write
19 specifically enough what products were in the
20 transaction so that it could be compared to the data
21 there could have been some ambiguity.

22 Q And you don't consider that to be an error?

23 A No.

24 Q So it's your testimony that dropping 16
25 percent of these is not considered a lot of dropped

1 transactions in the overall picture?

2 A In the context of the reason that they were
3 dropped, no, I do not think so.

4 Q Did you refer to any statistical literature
5 to determine whether that's a significant amount of
6 data to drop?

7 A I did not.

8 Q Do you know if there is any statistical
9 literature covering the subject?

10 A I do not off the top of my head.

11 MR. RICHARDSON: Thank you.

12 Those are all the questions I have, Mr.
13 Chairman.

14 CHAIRMAN OMAS: Thank you, Mr. Richardson.

15 Is there any further cross-examination of
16 Witness Nieto?

17 (No response.)

18 CHAIRMAN OMAS: Are there any questions from
19 the bench? Commissioner Goldway?

20 COMMISSIONER GOLDWAY: Thank you.

21 I may not have studied this as carefully as
22 I should, so forgive me if I sound uninformed. Tell
23 me exactly what a nested transaction is.

24 THE WITNESS: Sure. A nested transaction
25 occurs when a customer comes to the window and does

1 not have the necessary forms to complete a
2 transaction, so the clerk asks the customer to stand
3 to the side, complete his forms and then come back
4 whenever they are ready, so a transaction that is
5 broken up and there are other transactions in between
6 the beginning of one transaction and the end of that
7 transaction.

8 COMMISSIONER GOLDWAY: And you eliminated
9 all of those transactions?

10 THE WITNESS: No. We eliminated 57 of
11 those.

12 COMMISSIONER GOLDWAY: Thirty percent. Why?

13 THE WITNESS: Because they could not be
14 matched to the product specific information that we
15 need in order to include them in the database.

16 COMMISSIONER GOLDWAY: So whoever was behind
17 the clerk didn't write the right information?

18 THE WITNESS: They captured the information
19 and they wrote that there was a nested transaction and
20 they said which parts of the transaction were nested,
21 but because of the way the matching process worked it
22 had to be manually matched. There were times when it
23 was difficult to say.

24 For example, in a nested transaction you
25 could have an instance where a customer started at one

1 window and then went to a different clerk to finish
2 the transaction, so in those cases we weren't able to
3 match that transaction, and therefore it could not be
4 included because it wasn't a complete transaction.

5 COMMISSIONER GOLDWAY: And then you said
6 with the 1,500 or so observations that couldn't be
7 matched that weren't nested, that were just
8 straightforward --

9 THE WITNESS: Right.

10 COMMISSIONER GOLDWAY: -- there was some
11 ambiguity as well.

12 THE WITNESS: In the matching process,
13 correct.

14 COMMISSIONER GOLDWAY: And again will you
15 explain to me how that happens? You have somebody
16 behind the clerk noting what product is being handled.
17 What's the confusion?

18 THE WITNESS: Okay. Actually the way that
19 we did the study, the data collector did not record
20 the product specific information except for every 10
21 or 15 minutes as a marker.

22 The way the study was designed was to take
23 advantage of the POS One database that allows you to
24 have a full database of very detailed product specific
25 information that comes from the POS One registers, so

1 the data collectors would write the beginning and
2 ending of a transaction, and then periodically they
3 would write what the transaction was.

4 There's the time stamp from the transaction,
5 so if a transaction started at 8:35 and then it ended
6 at 8:37 we would go into the POS database that we
7 pulled and match those records up with the time stamp
8 from the POS transaction.

9 Because the POS registers only record
10 certain parts of the transactions -- pieces -- and the
11 timer is a little bit different, you know, we
12 basically had to go one-on-one and match. Okay, this
13 was the first transaction of the day. It included
14 stamps and money orders. Here's the matching
15 transaction in POS. Then we matched them
16 sequentially.

17 Now, at times there was transactions such as
18 when the clerk does not hit any kind of register key
19 so the data collectors would write that it was a non-
20 POS transaction. There would be some transactions
21 that would occur that the time stamp didn't quite
22 match, so instead of making guesses about which one
23 went with which transaction we would skip those
24 transactions.

25 COMMISSIONER GOLDWAY: So any of the

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1 transactions that weren't POS transactions were
2 eliminated? All the non-POS transactions were
3 eliminated?

4 THE WITNESS: If the clerk did not press a
5 POS key at any point in the transaction, yes. That's
6 correct.

7 COMMISSIONER GOLDWAY: So a whole range of
8 transactions weren't included in the data?

9 THE WITNESS: Yes, but we didn't intend --

10 COMMISSIONER GOLDWAY: What kinds of
11 transactions would be non-POS transactions?

12 THE WITNESS: It could be an inquiry, if the
13 customer just has a quick question about how do I get
14 directions to somewhere, but because we were
15 calculating product specific variabilities that was
16 not required.

17 COMMISSIONER GOLDWAY: Okay. What I'm
18 trying to think of is whether there were markers by
19 the people behind where there were confusing
20 transactions, where a package and a certified letter
21 somehow weren't marked clearly because they were part
22 of the same transaction or weren't noted, and
23 therefore they weren't clearly delineated in the
24 statistics that you were capturing. Did that happen
25 at all?

1 THE WITNESS: Could you rephrase the
2 question?

3 COMMISSIONER GOLDWAY: Well, I'm trying to
4 figure out what these problems were since I wasn't
5 there to watch the timers.

6 If there are this many, I'm just wondering
7 if it has something to do with the complicated nature
8 of the product, not just that you eliminated all non-
9 POS transactions.

10 THE WITNESS: No. No. Let me give you
11 another example of a reason that a transaction is
12 dropped.

13 If the clerk was away from the window or our
14 data collector took a break and they restarted,
15 sometimes there would be a transaction before or after
16 that time period. It didn't have anything to do with
17 necessarily the types of transactions, the types of
18 products that were included in the transaction,
19 because all the data collector was doing was recording
20 the beginning and ending of a transaction.

21 COMMISSIONER GOLDWAY: Were you able to look
22 at the data collector's pattern of marking and see how
23 much time there was in advance of the beginning of a
24 POS transaction?

25 In other words, somebody comes to the

1 counter, asks a lot of questions. How are your kids
2 and the weather or whatever, and then the POS system
3 goes into action. Did you count the amount of time
4 that was included in that part of the transaction, the
5 non-POS related part of the transaction?

6 THE WITNESS: Yes.

7 COMMISSIONER GOLDWAY: Was that part of the
8 time given to a particular product?

9 THE WITNESS: Witness Bradley can answer
10 that better than I can, but yes. Our definition of
11 the beginning of a transaction is when the customer
12 arrives at the window and begins their business or
13 when the clerk turns their attention to the customer,
14 so any of that greeting time and the time associated
15 with them asking any questions, regardless of when
16 that POS transaction key is pressed, is included in
17 our transaction time.

18 COMMISSIONER GOLDWAY: Witness Bradley will
19 tell us whether that gets allocated to a particular
20 product?

21 THE WITNESS: Correct.

22 COMMISSIONER GOLDWAY: Just one other
23 question. We had a witness the other day who was
24 responsible for overseeing the retail operations and
25 said that the goal of the Postal Service was to reduce

1 wait time to three minutes at the window.

2 Were you able to gather any data about wait
3 time?

4 THE WITNESS: The only wait time that we
5 gathered was related to when the clerk was waiting for
6 the customer, not when the customer was waiting in
7 line and waiting for the clerk. We don't have any
8 information on that.

9 COMMISSIONER GOLDWAY: Okay. Thank you.

10 CHAIRMAN OMAS: Commissioner Tisdale?

11 VICE CHAIRMAN TISDALE: I just wanted to
12 clear up one thing in my mind. You indicated that you
13 did not count any wait time.

14 Does that mean a customer could have been
15 standing in line for 30 minutes prior to getting to
16 the window and nobody cared?

17 THE WITNESS: Well, I don't know about that.
18 That was not the purpose of our study. It was simply
19 to observe the time associated with when the customer
20 was actually being served at the window.

21 VICE CHAIRMAN TISDALE: Did anybody actually
22 count the number of customers in the lobby?

23 THE WITNESS: No. That was not the purpose
24 of our study.

25 VICE CHAIRMAN TISDALE: So nobody cared how

1 many people were there or how long they stood there
2 waiting?

3 THE WITNESS: I think somebody probably
4 cares, but that was not what the purpose of our study
5 was.

6 VICE CHAIRMAN TISDALE: I know the customers
7 care.

8 That's all. Thank you.

9 THE WITNESS: Okay.

10 CHAIRMAN OMAS: Is there anyone else who
11 wishes to cross-examine this witness?

12 (No response.)

13 CHAIRMAN OMAS: Ms. Portonovo, would you
14 like some time with your witness?

15 MS. PORTONOVO: Yes. If we could have 10
16 minutes, please?

17 CHAIRMAN OMAS: Ten minutes? Ten minutes.

18 (Whereupon, a short recess was taken.)

19 CHAIRMAN OMAS: Ms. Portonovo?

20 MS. PORTONOVO: We have no redirect.

21 CHAIRMAN OMAS: Thank you.

22 Ms. Nieto, that completes your testimony.
23 We thank you for your contribution to the record, and
24 you are now excused.

25 (Witness excused.)

1 CHAIRMAN OMAS: Ms. Portonovo, would you
2 like to introduce your next witness?

3 MS. PORTONOVO: Thank you, Mr. Chairman.
4 The Postal Service calls Professor Michael D. Bradley
5 to the stand.

6 CHAIRMAN OMAS: Mr. Bradley, would you raise
7 your right hand?

8 Whereupon,

9 MICHAEL D. BRADLEY
10 having been duly sworn, was called as a
11 witness and was examined and testified as follows:

12 CHAIRMAN OMAS: Please be seated.

13 (The document referred to was
14 marked for identification as
15 Exhibit No. USPS-T-17.)

16 DIRECT EXAMINATION

17 BY MS. PORTONOVO

18 Q Mr. Bradley, in front of you you have two
19 copies of a document entitled Direct Testimony of
20 Michael D. Bradley on Behalf of the United States
21 Postal Service marked as USPS-T-17.

22 Were copies of those documents prepared by
23 you or under your direct supervision?

24 A They were.

25 Q And if the contents were given as oral

1 testimony today, would they be the same?

2 A They would.

3 Q Do you have any library references
4 associated with this testimony?

5 A I do.

6 Q And are they USPS-LR-L-80 and 81?

7 A They are.

8 MS. PORTONOV: Mr. Chairman, I will now
9 hand two copies of Mr. Bradley's testimony to the
10 reporter and ask that it and the associated library
11 references be entered into evidence.

12 CHAIRMAN OMAS: Without objection. So
13 ordered.

14 Hearing none, I will direct counsel to
15 provide the reporter with two copies of the corrected
16 direct testimony of Michael Bradley.

17 That testimony is received into evidence.
18 However, as is our practice, it will not be
19 transcribed.

20 (The document referred to,
21 previously identified as
22 Exhibit No. USPS-T-17, was
23 received in evidence.)

24 CHAIRMAN OMAS: Dr. Bradley, have you had an
25 opportunity to examine the packet of designated

1 written cross-examination provided to you in the
2 hearing room this morning?

3 THE WITNESS: I have.

4 CHAIRMAN OMAS: If the questions contained
5 in that packet were posed to you orally today, would
6 your answers be the same as those previously provided
7 in writing?

8 THE WITNESS: They would.

9 CHAIRMAN OMAS: Are there any corrections or
10 additions you would like to make to those answers?

11 THE WITNESS: No, sir.

12 CHAIRMAN OMAS: Counsel, would you please
13 provide two copies of the corrected designated written
14 cross-examination of Witness Bradley to the reporter?

15 That material is received into evidence and
16 is to be transcribed into the record.

17 (The document referred to was
18 marked for identification as
19 Exhibit No. USPS-T-17 and was
20 received in evidence.)

21 //

22 //

23 //

24 //

25 //

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS MICHAEL D. BRADLEY
(USPS-T-17)

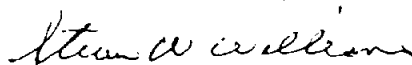
Party

Interrogatories

Office of the Consumer Advocate

OCA/USPS-T17-1-25

Respectfully submitted,



Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS MICHAEL D. BRADLEY (T-17)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
OCA/USPS-T17-1	OCA
OCA/USPS-T17-2	OCA
OCA/USPS-T17-3	OCA
OCA/USPS-T17-4	OCA
OCA/USPS-T17-5	OCA
OCA/USPS-T17-6	OCA
OCA/USPS-T17-7	OCA
OCA/USPS-T17-8	OCA
OCA/USPS-T17-9	OCA
OCA/USPS-T17-10	OCA
OCA/USPS-T17-11	OCA
OCA/USPS-T17-12	OCA
OCA/USPS-T17-13	OCA
OCA/USPS-T17-14	OCA
OCA/USPS-T17-15	OCA
OCA/USPS-T17-16	OCA
OCA/USPS-T17-17	OCA
OCA/USPS-T17-18	OCA
OCA/USPS-T17-19	OCA
OCA/USPS-T17-20	OCA
OCA/USPS-T17-21	OCA
OCA/USPS-T17-22	OCA
OCA/USPS-T17-23	OCA
OCA/USPS-T17-24	OCA
OCA/USPS-T17-25	OCA

RESPONSE OF POSTAL SERVICE WITNESS MICHAEL D. BRADLEY
TO INTERROGATORIES POSED BY OCA

OCA/USPS-T17-1. The purpose of this interrogatory is to obtain information on the EViews files which you use in Library References USPS-LR-L-80 and USPS-LR-L-81. OCA does not have access to a copy of EViews that will permit us to open the files, to read the files or to run EViews programs. We do not have any experience with the program. Accordingly, the following questions are necessary.

- (a) Please provide a printout of the EViews files in Library Reference USPS-LR-L-80. It appears that the output information is in the library reference. Please confirm this. If you do not confirm, please explain in detail. Please also provide the appropriate EViews files that are computer inputs, programs, or program logs. In addition, please explain the definition of intermediate variables created by the program.
- (b) Please provide a printout of the EViews files in Library Reference USPS-LR-L-81. Again, it appears that output information is in the library reference; please confirm this. If you do not confirm, please explain in detail. Please also provide the appropriate EViews files that are computer inputs, programs, or program logs. Please provide explanations of the content of the various documents and intermediate variables (if any).
- (c) Assuming that some of the EViews files are computer programs, please provide the programs in SAS if this is feasible.
- (d) If your answer to (c) is that providing SAS programs is infeasible, please provide a step-by-step statement of the computational, data, formatting, and other steps that your EViews program(s) is (are) performing. Please provide references to the literature if the statistical techniques go beyond techniques which you have previously filed in testimony before the Commission in this or other cases. This information needs to be sufficiently detailed so that the work can be put in SAS form.

RESPONSE:

- a. Confirmed. There are no EViews files that are computer inputs, programs, or program logs other than what has been already filed in Library References USPS-LR-L80. For a discussion of the definition of intermediate variables please see my response to POIR 3, Question 9.
- b. Confirmed. There are no EViews files that are computer inputs, programs, or program logs other than what has been already filed in Library References USPS-

**RESPONSE OF POSTAL SERVICE WITNESS MICHAEL D. BRADLEY
TO INTERROGATORIES POSED BY OCA**

LR-L80. For a discussion of the definition of intermediate variables please see my response to POIR 3, Question 9.

- c. The EViews files are not computer programs in the sense you appear to mean. The regression analysis was done in EViews' interactive mode. The outputs of all regressions have already been provided. Thus, providing the "program" in SAS does not have meaning.
- d. Here is a step-by-step guideline how the analysis could be performed in SAS:
- | | |
|---------|---|
| Step 1. | Read the data into the software program. These data have been already provided in Excel format, so you could read that directly into SAS. |
| Step 2. | A few intermediate variables were constructed. The formulas for each have been provided in text form in my response to POIR 3, Question 9, so you could construct these in SAS. |
| Step 3. | A series of linear regressions were estimated. The step-by-step research path I followed is described in detail in my testimony. These equations could be estimated by using PROC REG or PROC GLM in SAS. In SAS, you will have to directly compute the HC standard errors (which EViews does automatically). However, I explained how to do this in my city carrier testimony in Docket No. R2005-1. |

There are no statistical techniques that go beyond those I have previously filed in testimony before the Commission.

**RESPONSE OF POSTAL SERVICE WITNESS MICHAEL D. BRADLEY
TO INTERROGATORIES POSED BY OCA**

OCA/USPS-T17-2. As your testimony indicates, you have appeared before the Commission on a number of occasions. Many of the studies which you have presented have been programmed in SAS.

- (a) For this study, you have switched to EViews. Please explain your decision to use EViews rather than SAS in developing the study.
- (b) Is there some type of procedure that EViews performs more readily and/or accurately than SAS? If your answer is affirmative, please explain.

RESPONSE:

- a. EViews is a piece of econometric software expressly designed for estimating regressions. SAS is a broad piece of statistical software that does many things but can be a bit unwieldy. I have done other research in EView and I believed I could perform this particular piece of research more quickly and with less chance of error than in SAS. In my view, one of SAS's strengths is its ability to handle large data sets and to manipulate and combine data from various sources. This study does not have large data sets for data from several sources so that aspect of SAS is not applicable.
- b. I would say the estimation of econometric equations, the analysis of residuals, and the performance of diagnostic tests are all done more readily in EViews.

**RESPONSE OF POSTAL SERVICE WITNESS MICHAEL D. BRADLEY
TO INTERROGATORIES POSED BY OCA**

OCA/USPS-T17-3. The purpose of this interrogatory is to ascertain your choice of estimating equation, given that you have used flexible functional forms in other testimony but are now relying on the linear form. You state in your testimony at 19, lines 11-14, that the established econometric model is linear in form. You appear to have continued to use the linear form in your analysis. In other testimony which you have filed before this commission in presenting estimating equations, you have presented flexible functional forms including the Quadratic form, the Restricted Quadratic form, and Translog form.

- (a) Did you consider the use of these or other forms? If you performed any studies using any of these or other forms, please provide the results of such studies or estimates of window service transactions.
- (b) Please explain your decision not to use equation forms which you have previously used, with references to the econometric and/or theoretical literature as appropriate.

Response:

- a. No.
- b. As I stated in my "Purpose and Scope" section, the purpose of my testimony is to update the transaction supply side variabilities for window service costs. These variabilities are just one part of the established method for calculating volume variable window service costs. The linear model was first introduced by the Postal Service in Docket No. R97-1. In so far as I could determine, no party to that proceeding criticized or took issue with the approach or the results. The Commission accepted it without criticism, or suggestion for improvement, or revision. The linear model was used by both the Postal Service and the Commission in Docket No. R2000-1, Docket No. R2001-1, and Docket No. R2005-1. In none of those dockets did any party criticize or object to any part of the analysis. Given this history, and given the limited scope of my testimony, it seemed appropriate to once again adopt a linear specification.

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TO INTERROGATORIES POSED BY OCA**

OCA/USPS-T17-4. The purpose of this interrogatory is to compare the linear form with other flexible functional forms previously used by you in terms of underlying assumptions, recognizing that the assumptions about the choice of estimating equation will impact the conclusions. It is our understanding that flexible functional forms do not impose underlying assumptions on the equation being estimated. This question seeks to ascertain whether such is the case for the linear form.

- (a) Does the linear form involve the imposition of assumptions in terms of the signs of first or second derivatives and/or other assumptions?
- (b) If your answer is affirmative, please explain with references to the econometric and/or theoretical microeconomic literature, as appropriate.

Response:

a.& b. Consider the following linear function:

$$z = \alpha + \beta x_1 + \gamma x_2.$$

The first partial derivative of the function with respect to x_1 is given by:

$$\frac{\partial z}{\partial x_1} = \beta.$$

Note that there are no restrictions on the sign of β . The second partial derivative with respect to x_1 is given by:

$$\frac{\partial^2 z}{\partial x_1^2} = 0.$$

This shows that the second derivative of a linear function takes the value of zero.

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TO INTERROGATORIES POSED BY OCA**

OCA/USPS-T17-5. Please refer to Table 1, page 22 in your testimony. It is clear that for each type of transaction in the table you have taken the total for the column and divided by 7,915. What is the purpose of this table and the use for these results?

Response:

As the title suggests, the purpose of the table is to provide the sample means. The use of the results is to consider a measure of central tendency for the listed variables.

**RESPONSE OF POSTAL SERVICE WITNESS MICHAEL D. BRADLEY
TO INTERROGATORIES POSED BY OCA**

OCA/USPS-T17-6. The purpose of this interrogatory is to clarify for the record the naming of a key variable. Turning to table "wscleanpos.11.3.05.xls" in your Library Reference USPS-LR-KI-80, please verify that the variable "length" measures time. If you do not verify, please explain fully.

Response:

Yes. Please see my response to POIR #3, Question 12.

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OCA/USPS-T17-7. Table 2 at page 26 is one of a number of tables in your testimony presenting an estimate of transaction time as a function of variables. In some cases, the underlying equation would have a single intercept variable, and in other cases there would be a number of site-specific intercepts.

- (a) Is there an economic interpretation of the intercept variable for the case with one intercept variable? Please explain your answer.
- (b) Is there an economic interpretation of the intercept variable for the case with multiple intercept variables? Please explain your answer.

Response:

- a. Yes. As I explain on page 11 of my testimony:

The cost generating process underlying the established method can be captured in an equation for an individual transaction time (y_i) that has two parts, the time for processing the items in the transaction (captured by the β_j) and the time associated with the existence of the transaction itself (captured by β_0):

$$y_i = \beta_0 + \sum_{j=1}^m \beta_j x_{ji}$$

- b. Yes. The data set contains data from a number of different Post Offices. In the instance of multiple intercepts (one for each site), the estimated coefficients reflect an estimate of the time associated with existence of a transaction at the individual sites. An overall average time is calculated by taking a weighted average of those individual coefficients. For a discussion of its calculation please see USPS-LR-80 and my response to POIR #3, Question 7.

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OCA/USPS-T17-8. The purpose of this interrogatory is to document some of the properties of your regression equations. The regressions underlying your study have R squared values in the neighborhood of 0.5.

- (a) Why are the R-squared values not higher?
- (b) What could have caused the R-squared values to be higher?
- (c) If the R-squared values had been higher, would the elasticities ultimately computed have been different?
- (d) Does the value of the Durbin-Watson statistic raise a question as to the accuracy, precision, or reliability of your conclusions?

Response:

- a. It is difficult to speculate on the counterfactual. However, I would note that the R-squared values from the estimated equations in my testimony are quite a bit higher than those for the established model. Moreover, the R-squared are reasonable for a model that is estimated on what is essentially a cross-sectional data base.
- b. It is well known, for example, that R-squared is non-decreasing in the number of variables in the equation. Thus, if one's sole goal is increasing the R-squared measure, one could add additional variables, whether or not they make operational sense, to the equation.
- c. There is no functional relationship between the R-squared measure and the calculated variabilities so it is impossible to be definitive. In general, the R-squared measure could be higher in one of two regression equations and the

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computed variabilities from that equation could be either higher or lower than the computed variabilities from the regression equation with the lower R-squared.

- d. *No. It is not an applicable statistic for these regressions. It is a measure of serial correlation which does not exist in cross-sectional data.*

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OCA/USPS-T17-9. The purpose of this interrogatory is to confirm and highlight the linear nature of your estimating procedure. Please turn to page 13, lines 16 and 20, of your testimony. It appears that the equation on line 16 presents the amount of time for a single item transaction, consisting of a fixed amount of time plus a variable amount of time depending on quantity, which in this case is "one".

- (a) Please confirm that if 20 items are transacted, then the total amount of time will be the same fixed amount of time plus 20 times the amount of time for the single transaction. If you do not confirm, please explain.
- (b) Please confirm that β_0 could be different for each type of transaction. If you do not confirm, please explain.

Response:

- a. Confirmed given the phrase, "the amount of time for the single transaction" refers to the β_k coefficient in the cited equation.
- b. Confirmed.

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OCA/USPS-T17-10. Please turn to page 41 of your testimony, where you provide an "addendum to USPS-T-17." You indicate that some calculated variabilities in the associated spreadsheet were corrected for "minor cell errors." Please provide the revised spreadsheet and the original spreadsheet.

Response:

Please see my response to POIR #3, Question 7.

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OCA/USPS-T17-11. On page 3 of your Library Reference USPS-LR-L-81 you reference the worksheet "Average Product Times.R2006.xls." A review of the Library Reference has not located the worksheet. Please indicate where the worksheet is located in the Postal Service filing or, alternatively, please provide the worksheet and appropriate documentation.

Response:

Please see my response to POIR #3, Question 8.

**Response of Postal Service Witness Michael D. Bradley
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OCA/USPS-T17-12. The purpose of this interrogatory is to develop information on the database wscleanpos.11.3.05.xls, which provides the data for your study of window service supply side volume variabilities. The database consists of 7915 rows of observations with 46 columns of data. In many cases the columns denote type of transaction. When a transaction corresponding to the type of transaction denoted in the column heading occurred, the cell in the appropriate transaction column and row was filled with a number denoting the quantity of items/products associated with the transaction. Otherwise, the cell appears to have been left blank. There are a large number of blank cells in the database. However, in some cases, rather than a cell being blank, the cell contains the number "0".

- (a) Attachment 1, "Data Questions," to this interrogatory presents the cases in which a database entry was "0" rather than being left blank. The log of the SAS program "Data Questions" is also attached to this interrogatory (Attachment 2) for informational purposes. Since the majority of cells were blank, it appears that the entry of a "0" is inconsistent with other entries. This raises the question of whether the data entry is correct. Please confirm that the entry "0" is correct in each of the identified cases or, alternatively, please provide the corrected data in a revised spreadsheet.
- (b) In a number of cases, relatively few non-zero entries have been identified for a transaction type: Domestic COD: one entry; Electronic Return Receipt: one entry; First Class Enclosure: one entry; Library Mail: one entry; Mailing Payments: twelve entries; Retail item: eight entries; Registered with Insurance: fifteen entries. Please state the minimum number of non-zero observations that would be required for a product (e.g., Mailing Payments) to generate statistically meaningful results in the regression equation. Please provide references to the literature, as available, identifying and deriving the required numbers of observations and appropriate statistical tests.
- (c) Please confirm that there is one entry for Domestic COD in the database and that COD was a variable in your regressions. If you do not confirm, please explain.
- (d) Your Table 8 provides "Estimated Variabilities". Did you use the regression results from an equation containing the above referenced data for domestic COD to compute an estimated variability for COD? If not, please explain.

Response:

- a. The entry of zero is correct. An entry of zero means that there was a transaction activity associated with the product but no purchase took place. Examples of

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non-purchase transaction activities include an inquiry about the product, an acceptance of a previously stamped product, or a customer refusing to purchase the product after an initial intent of purchase.

- b. One. A product could occur in only one transaction, but it could cause the transaction time in that transaction to be different from the transaction times in a set of other transactions that had a similar vector of products. The estimated coefficient on the product in question would be an estimate of the additional time associated with having that product included in the transaction. For a discussion of how a variable with one non-zero entry could be used in a regression, please see an econometrics textbook for a discussion of categorical or "dummy" variables. A standard "t" test can be used to test for the significance of the coefficient estimated on the dummy variable. For example, see Econometric Models and Economic Forecasts, by Robert Pindyck and Daniel Rubinfeld, McGraw-Hill, New York, 1981 at 111.
- c. Confirmed.
- d. No. The COD variability is 100 percent (as it has been in the established model) because COD transactions always take place in conjunction with another product.

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OCA/USPS-T17-13. Please turn to the database entries for the variable "Inquiry".

- (a) Please confirm that there are no positive entries indicating that an inquiry occurred, although there are a number of "0" entries. If you do not confirm, please explain.
- (b) Please confirm that the data are correct or, alternatively, provide corrected data.
- (c) Please state how the "Inquiry" data was used or could have been used in your analysis, given that a "0" entry appears to provide estimation problems and that only "0" entries occur.

Response:

- a. Confirmed that the entries for the Inquiry variable are "0," as they should be. An entry of "0" indicates that an inquiry took place but no item was purchased.
- b. The data are correct. A value of "0" indicates that an inquiry took place.
- c. The Inquiry variable was not used.

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OCA/USPS-T17-14. Please provide a cross-walk between the database wscleanpos.11.3.05.xls and the variables in Table 7 of your testimony.

- (a) In the case in which a single variable from the database maps onto a single variable in Table 7, please so indicate.
- (b) In the case in which multiple variables from the database map onto a single variable in Table 7, please so indicate.
- (c) Please denote the variables, if any, from the database which are not mapped into the variables in Table 7.

Response:

- a. Please see the table below.
- b. Please see the table below.
- c. Any variable not listed in the right-hand-column of the table is not mapped into the variables in Table 7.

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Table 7 Name	Wscleanpos.11.3.05.xls Name
Certified	Certified
First Class	First_Class
Stamps Bulk	StampScan
Stamps Non-Bulk	StampNonScan
Priority Mail	Priority
Money Order	Money_Order
Parcel Post	Parcel_Post
Other Weigh & Rate	Bounded_Printed_Matter+Library_Mail+Media_Mail
Express Mail	Express_Mail
PVI	PVI
Insurance	Insurance
Ready Post	Ready_Post
International	International+International_Special_Services
Stamped Envelopes	Stamped_Env
Registered	Registered_with_Insurance
Passport	Passport
Retail Products	Retail_Item
PO Box	Box_Rental
COD	Domestic_COD
First Class Enclosure	First_Class_Enclosure
Other Special Services	Return_Receipt+Delivery_Confirmation+Signature_Confirmation+Certificate_of_Mailing+Postage_Due
General Services	Hold_Mail+Pickup+Mailing_Payments
Other	Other
Check	Tenderytype
Credit Card	Tenderytype
Debit Card	Tenderytype

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OCA/USPS-T17-15. Please provide a cross-walk between the database wscleanpos.11.3.05.xls and the products or special services in Table 8 of your testimony.

- (a) In the case in which a single variable from the database maps onto a single product in Table 8, please indicate whether additional variables not in the database also map onto the product.
- (b) In the case in which multiple variables from the database map onto a single product in Table 8, please indicate whether additional variables not in the database also map onto the product.
- (c) Please indicate the variables, if any, from the database which are not mapped into the products in Table 8.

Response:

Please note that Table 8 simply presents the implications of updating the transaction supply side variabilities for the computation of volume variable costs in the window service spreadsheets. It is not part of my analysis, per se, so there is not necessarily a mapping between wscleanpos.11.3.05.xls and the table. Some items in the table will relate directly to wscleanpos.11.3.05.xls, but others bear no direct relationship because they were not part of the study. In this latter instance, I have entered a "na" in the table to show that the cross walk is not applicable.

- a. Please see the table below.
- b. Please see the table below.
- c. Any variable not listed in the right-hand-column of the table is not "mapped into" the variables in Table 8.

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Table 8 Name	Wscleanpos.11.3.05.xls Name
FIRST-CLASS MAIL	First_Class
PRIORITY MAIL	Priority
EXPRESS MAIL	Express_Mail
MAILGRAMS	na
PERIODICALS	na
STANDARD MAIL	na
PARCELS ZONE RATE	Parcel_Post
BOUND PRINTED MATTER	Bounded_Printed_Matter
MEDIA MAIL	Media_Mail
US POSTAL SERVICE	na
FREE MAIL	na
INTERNATIONAL MAIL	International+International_Special_Services
REGISTRY	Registered_with_Insurance
CERTIFIED	Certified
INSURANCE	Insurance
COD	Domestic_COD
MONEY ORDERS	Money_Order
STMPD CARDS	na
STMPD ENVELOPES	na
SPECIAL HANDLING	na
POST OFFICE BOX	Box_Rental
OTHER	na
TOTAL STAMPS	StampNonScan+StampScan
TOTAL CARDS	Na
TOTAL METERED	na
STAMPED ENVELOPES	Stamped_Env

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OCA/USPS-T17-16. The purpose of this interrogatory is to obtain information concerning the control variable referenced on page 22 of your testimony.

- (a) Is the control variable in the regression the variable "items," as set forth in Library Reference USPS-LR-L-80? If your answer is affirmative, please explain why you regard the variable as a control variable, also indicating the meaning of the regressor. If your answer to this part of the question is affirmative, please ignore parts (b), (c), and (d) of this interrogatory. If your answer is negative, please answer parts (b), (c) and (d) in this interrogatory.
- (b) Please identify the variable by column in the database, explain its meaning, and show the derivation, definition, or computation of the variable.
- (c) Please show how the variable was used in your regression analysis, referencing the variable and associated computations in the regression(s).
- (d) Please provide the t statistic and other relevant data, as appropriate, associated with regressions using the control variable.

Response:

- a. Yes. A control variable is one included in a regression to control for variations in the dependent variable that occur for reasons other than variation in the independent variables of interest. In my update of the supply side variability equation, I was concerned that the existence of more than one item in a transaction could lead to some additional transaction related time (due to the added complexity of having more than one item) that was not caused by any of the products included in the transaction. I thus include the "items" variable to account for the possibility.
- b. Not applicable
- c. Not applicable
- d. Not applicable

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OCA/USPS-T17-17. The purpose of this interrogatory is to delineate specifically all of the observations dropped from the econometric analysis.

1. On page 23 of your testimony, at lines 13 and 14, you identify five observations with very large volumes excluded from the regression analysis;
 2. On page 23, at lines 17 to 19, you identify a Priority Mail transaction dropped from the regression analysis;
 3. On page 24 you identify a stamped envelope transaction at lines 7 to 8 that is dropped from the regression analysis;
 4. On page 24, at lines 10 through 12, you identify two transactions dropped from the analysis;
 5. On page 25, lines 11 through 13, you identify ten transactions related to passports that are dropped; and
 6. On page 25, lines 13 to 19, you identify a number of transactions that were dropped in certain alternative analyses.
- (a) Please specifically identify the observations dropped; presumably this could be accomplished by using the identifier BasketID if this identifier is unique to each line of data in your spreadsheet. If such is not the case, please use an appropriate method that would uniquely identify data items dropped from your database, wscleanpos.11.3.05.xls.
 - (b) Please identify any other observations dropped from the analysis but not specifically referenced above as having been dropped, and please provide an explanation of why the items were dropped.
 - (c) Please confirm that BKSKTID and BasketID as used in various parts of your testimony and library references are identical. If you do not confirm, please explain in detail.

Response:

a. The BasketID identifier is used as requested. Each of the responses below provides an answer to an individual subpart, identified by number, in the question preface.

1.

5232851777
5221161559
5234877334
5239543847
5224524863

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2.

5224808246

3.

5215045263

4.

5198798207
5251962872

5.

5204600699
5228548508
5232851741
5232851729
5253926578
5230299463
5220160205
5204600396
5204600585
5224998539

6.

5200763248
5260112697
5204600684
5232851668
5209254893
5224524901
5224524902
5220160325
5224524927

- b. One other alternative analysis was explored. As explained in footnote 9 on page 24 of my testimony, I also investigated dropping a small number of observations with very small transaction times. Here are the Basket Ids for those observations

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5230299631	5258530467	5215045105
5239543673	5226135292	5215045193
5228829212	5217873364	5219586263
5226135317	5243812478	5250085607
5255577812	5209254990	5200763136
5260112376	5258530478	5196711158
5235402965	5228829197	5213161413
5205967878	5215045169	5224524864
5224807922	5219586229	5200763183
5215045299	5209254934	5226135237
5209254944	5255577804	5230299704
5253926395	5224807851	5215045115
5228829317	5200763013	5243812455
5232851715	5217873403	5202686920

c. Confirmed.

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OCA/USPS-T17-18. This interrogatory seeks to develop information on the variables used in your regressions.

- (a) Please confirm that the variable "General Services" in Table 2, page 26, is identical to the variable "Services" referenced in your response to Presiding Officer's Information Request No. 3, question 9. If your answer is negative, please explain in detail and provide the correct formula for the variable.
- (b) Please turn to page 4 of Library Reference USPS-LR-L-80; please state where and how the variable INQ is used in the regression analysis.
- (c) Please turn to page 4 of Library Reference USPS-LR-L-80; please explain the composition of the transactions included in the variable "other."
- (d) Please turn to page 5 of Library Reference USPS-LR-L-80. Please state how the variables "regtype," "posture," and "multi," are used in the regression analysis.

Response :

- a. Confirmed.
- b. It is not used in the regression analysis.
- c. The composition of the transactions in the "other" variable is unknown as it is a category that captures any transaction that can not be classified as one of the defined transactions. In fact, it is the inability to classify the transaction that leads to the use of the "other" variable.
- d. The variables are not used in the regression analysis.

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OCA/USPS-T17-19. This interrogatory focuses on statistical issues associated with the regressions.

- (a) Did you examine whether the data are collinear? Please explain in detail.
- (b) Unlike SAS, EViews does not appear to print out the intercept term for regression equations. Please explain how the intercept(s) can be obtained when equations are generated using EViews. Please be specific as to which EViews files need to be accessed.

Response:

- a. I looked for the regular symptoms of multicollinearity such as low t-statistics, and wrong signs accompanied by a high R-squared statistic. Because such symptoms are absent, I did not pursue any further analysis of colinearity.
- b. EViews does indeed print out the estimated intercept term when it is included in the regression equation. It can be identified by the letter "C" (which stands for "constant," a term often used in place of the word "intercept.") For example, please see page 15 of USPS-LR-L-80 in which the intercept (or constant) term has a value of 41.21778.

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OCA/USPS-T17-20. The purpose of this interrogatory is to obtain the columns LocID, PeriodID and BasketID for the spreadsheet provided in POIR No. 3, Question 10. Please turn to your response to Question 10 of POIR No. 3. You provided the Excel version of a spreadsheet of the input data (prior to deletion of any observations) used to produce "First Estimation: Calculating Residuals for Analysis". This spreadsheet appears to have been based on the spreadsheet wscleanpos.11.3.05, as modified subsequently. Please provide line-by-line entries for LocID, Period ID, and BasketID

Response:

The line-by-line entries for Loc ID, Period ID and Basket ID are already provided in the spreadsheet "wscleanpos.11.3.05." To incorporate them into spreadsheet "Input data that produced First Estimation.xls," use Excel's "Insert" command to add three blank columns in the spreadsheet columns A, B and C and then copy and paste the line-by-line values from "wscleanpos.11.3.05."

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OCA/USPS-T17-21. The purpose of this question is to inquire about a possible typographical error for one of the dummy variables.

- (a) Your answer to POIR No.3, question 9, indicates that for D14 the value should be set to 30422. Please confirm that the value should be 30442.
- (b) If you do confirm, does this change any of the regression output? If your answer is affirmative, then please explain in full.

Response:

- a. Confirmed.
- b. No. The typographical error occurred in the production of the table in response to POIR No. 3, question 9, not in the estimation of the equation.

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OCA/USPS-T17-22. The recommended model, presented on page 8 of Library Reference USPS-LR-L-80, includes 27 dummy variables. It appears that all of the *dummy variables are used in the regression*. When one uses dummy variables, the inclusion of the entire set of dummy variables in the regression equation can result in the output message that the model is not of full rank and that the least squares solutions are not unique. Please explain how you are able to use all of the dummy variables in the model and obtain a model of full rank.

Response:

The statement posed in the question is not quite accurate. The error message referred to occurs when one column of the X matrix can be described as an exact linear transformation of another column or set of columns. In such an instance, the X matrix has less than full rank. This condition does not occur, however, unless all dummy variables and an intercept term are included. For example, consider a data set that has three observations and three dummy variables. The columns of the X matrix dealing with the dummy variables would look like:

1	0	0
0	1	0
0	0	1

This matrix is, of course, invertible and has an inverse equal to 1. There is no problem with rank. On the other hand suppose that all three dummy variables and the intercept are included in the equation. Then the relevant columns of the X matrix are given by:

1	1	0	0
1	0	1	0
1	0	0	1

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Clearly the first column is equal to the sum of the next three columns. An exact linear dependence is formed and the matrix cannot be inverted.

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OCA/USPS-T17-23. The calculation of $b(0)$ is presented in the Excel Spreadsheet "Calculating Variabilities_49292.xls". Computation of the term $b(0)$ involves the summation across the values of the regressors for the 27 dummy variables.

- (a) In view of full rank issues associated with the over-inclusion of dummy variables, should there be 27 or 26 dummy variables? Please explain in detail.
- (b) Would the equation from which you obtained the values used for the dummy variables have an intercept term other than the intercepts for the dummy variables? If so, what are the intercept terms?
- (c) Is it correct that any general intercept term for the equation would not enter the calculation? Please explain.

Response:

- a. As explained in my response to OCA/USPS-T17-22, there are no issues associated with the "over-inclusion" of dummy variables. Thus, the correct number of dummy variable coefficients to include in the calculation is 27.
- b. No.
- c. Yes.

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OCA/USPS-T17-24. Your recommended model is on page 7 of Library Reference USPS-LR-L-80. OCA has rerun the model in SAS based on the information in your testimony and library references. The attached program, output, and log summarize the work. (See Attachment, OCA/USPS-T17-24) As recognized in your response in OCA/USPS-T17-1(a), EViews does not provide programs, program logs, or computer inputs. There is, accordingly, no certainty that the SAS model is an exact representation of the model in the library reference.

- (a) The EViews output appears to have no intercept term. Is this correct? If an intercept term is in a workfile in the model, please explain where the intercept term can be found. Alternatively, please explain the absence of an intercept term in the equation, including an explanation of how you avoided having an intercept.
- (b) The SAS model has an intercept. Has the SAS model incorrectly reproduced the EViews model? Please explain.
- (c) Assuming that the EViews output has no intercept term, how should the SAS model have been structured, particularly as regards to an intercept?
- (d) The SAS model does not reproduce the EViews results, although it appears to have been run under the same conditions as the EViews program. Please review the Attachment to this interrogatory and identify any reasons that the EViews results are not reproduced. Please explain your answer.

Response:

- a. Yes. An intercept should not be used (in fact can not be used) in a regression analysis in which there is a dummy variable for each post office. Inclusion of the intercept along with a complete set of dummy variables would lead to an X matrix of less than full rank. Instead, you could think of the regression having an intercept for each post office.
- b. The form of the SAS model is correct but because of problems earlier in the program, it has not correctly reproduced the results.
- c. One should use the "NOINT" option in the SAS REG Procedure (in the model statement) to exclude an intercept from the analysis.

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- d. A review of the program reveals two problems. First the "CREDIT" variable is not constructed correctly (it should also include tender type = 23) and the program seems to have had problems accurately reading in the data. Correcting these two problems will lead to a replication of the EViews results.

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OCA/USPS-T17-25. The purpose of this interrogatory is to obtain an improved understanding of the FTESTREGRESSION table in the EViews work file.

- (a) Please state the hypothesis being tested.
- (b) Please state the meaning of the "Value" column, how it is computed, and how it is used.
- (c) Please state the meaning of the Standard Error column, how it is computed, and how it is used.
- (d) Please state how the Chi-square statistic is used.
- (e) Please state how the F-statistic is used.
- (f) Please provide a reference to the test in the literature or a textbook.
- (g) Please provide a reference to the relevant pages and chapters/headings in the EViews manual.

Response:

- a. The hypothesis being tested is that site-specific dummy variables are required in the econometric equation. This hypothesis is tested by running a regression with an intercept and 26 dummy variables (the dummy for the first site -- D1 -- is omitted) and testing whether the estimated coefficients on the dummy variables are jointly equal to zero. An F-test is used to test this hypothesis.
- b. The entries in the "Value" column are the estimated coefficients for the dummy variables D2 through D27 in the above described regression. They are not used in the calculation of the F-statistic but they represent the values of restriction be tested.
- c. The entries in the "Standard Error" column are the standard errors of the estimated coefficients for the dummy variables D2 through D27. They are not used in the calculation of the F-test.

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- d. It is not used in the F-test.
- e. The F-statistic is used to test the null hypothesis that the coefficients on the dummy variables are equal to zero. Given the calculated value for the F-statistic of 14.338, the probability that the dummy variable coefficients are actually equal to zero, given their estimated values, is calculated to be 0.0000.
- f. Econometric Models and Economic Forecasts, by Robert Pindyck and Daniel Rubinfeld, McGraw-Hill, New York, 1981 at 117.
- g. Please see Chapter 19, "Specification and Diagnostic Tests," at 556.

1 CHAIRMAN OMAS: There are also two responses
2 to the following Presiding Officer's Information
3 Requests that I would like to enter into the
4 evidentiary record at this point. They are POIR No.
5 3, Questions 7 through 17, and POIR No. 7, Questions 3
6 through 8.

7 I will hand this to the reporter.

8 Dr. Bradley, if you were asked to respond
9 orally to these questions here today, would your
10 answers be the same as that previously provided in
11 writing?

12 THE WITNESS: They would.

13 CHAIRMAN OMAS: I have provided two copies
14 of that answer to the reporter and direct that it be
15 admitted into evidence and transcribed.

16 (The documents referred to
17 were marked for
18 identification as Exhibit
19 Nos. POIR No. 3, Questions 7
20 through 17, and POIR No. 7,
21 Questions 3 through 8 and
22 were received in evidence.)

23 //

24 //

25 //

**Response of Postal Service Witness Michael D. Bradley (USPS-T-17)
To Presiding Officer's Information Request POIR No. 7**

8. Please confirm that the t-statistics and other tests for significance witness Bradley relied upon for the models recommended in USPS-LR-L-80 and USPS-LR-L-81 depend on the assumption that the equation errors are approximately normal. Please provide the results of a suitable test for normality of residuals for these two models, along with documentation of these tests.

Response:

The variance/covariance matrix for the OLS estimator is given by:

$$V(b) = (X'X)^{-1}X'V(y)X(X'X)^{-1}, \text{ where } V(y)=\sigma^2I.$$

As suggested by the question, the error variance is typically assumed to be normal and constant so that:

$$V(b) = \sigma_e^2(X'X)^{-1}.$$

This variance is the basis for the t-tests mentioned in the question. However, when these assumptions are violated, an alternative is to estimate robust standard errors, based upon the heteroskedasticity consistent covariance matrix. The variance underlying the robust standard errors is given by:

$$V(b) = (X'X)^{-1}X'\Phi X(X'X)^{-1},$$

where $\Phi = \text{diag}[e_i^2]$, and the e_i are the OLS residuals. This is the approach that I took in calculating t-statistics for recommended model presented in my testimony.

A standard test for the normality of the residuals is the Jacque-Bera statistic, given by:

$$JB = \frac{N-k}{6} \left(\omega^2 + \frac{(\kappa-3)^2}{4} \right)$$

ω is a measure of skewness and κ is a measure of kurtosis. The Jacque-Bera statistic for the recommended model is 362461.9 indicating a rejection of normality.

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D14	93.71072	5.052048	18.54905	0.0000
D15	65.44272	3.954236	16.55003	0.0000
D16	71.91458	4.212150	17.07313	0.0000
D17	62.79771	3.738010	16.79977	0.0000
D18	19.52136	4.581213	4.261177	0.0000
D19	46.86858	4.070961	11.51291	0.0000
D20	48.27831	5.548733	8.700781	0.0000
D21	42.53965	3.981830	10.68344	0.0000
D22	62.96277	6.558236	9.600565	0.0000
D23	35.54280	4.060337	8.753656	0.0000
D24	45.18846	3.282245	13.76755	0.0000
D25	39.64745	3.630812	10.91972	0.0000
D26	34.92827	3.762839	9.282424	0.0000
D27	43.46539	3.981054	10.91806	0.0000
<hr/>				
R-squared	0.548706	Mean dependent var	112.1204	
Adjusted R-squared	0.545793	S.D. dependent var	94.25147	
S.E. of regression	63.52067	Akaike info criterion	11.14713	
Sum squared resid	31258180	Schwarz criterion	11.19266	
Log likelihood	-43411.65	Durbin-Watson stat	1.520033	

There are several things to note about this estimation. First, the observations including the COD and First Class Enclosure variables were included in the 117 dropped, so coefficients for those variables can no longer be estimated. Second, the estimated coefficients on the transactions volumes are generally smaller than in the recommended model. Third the results are generally similar to the recommended model. By this, I mean that those transactions volumes that had relative highly coefficients in the recommended model also have relatively high coefficients here.

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Dependent Variable: TIME

Method: Least Squares

Sample: 1 7915 IF RSTUDENT < 3.0 AND RSTUDENT > -3.0

Included observations: 7798

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CERT	3.678614	2.278064	1.614798	0.1064
FC	16.62208	0.656793	25.30795	0.0000
STMPSCN	3.947191	0.508491	7.762553	0.0000
STMPNO	0.246827	0.032145	7.678478	0.0000
PM	27.08703	1.021903	26.50645	0.0000
MO	30.15085	1.361834	22.13989	0.0000
PP	34.36092	2.463363	13.94879	0.0000
OWR	27.38498	2.226530	12.29940	0.0000
EM	79.21912	3.070915	25.79659	0.0000
PVI	29.13124	4.510774	6.458147	0.0000
INS	27.10485	2.511036	10.79429	0.0000
RP	6.895314	2.247643	3.067797	0.0022
INTERNATL	59.48716	1.987641	29.92853	0.0000
STMPEN	0.157957	0.126304	1.250614	0.2111
REGINS	107.8347	15.55005	6.934688	0.0000
PASS	409.5187	11.90240	34.40638	0.0000
RETAIL	156.9488	20.18058	7.777222	0.0000
BCX	94.35242	5.902719	15.98457	0.0000
OSS	7.638198	1.454195	5.252527	0.0000
SERVICES	37.30072	2.661420	14.01535	0.0000
CHECK	30.42594	3.317698	9.170800	0.0000
CREDIT	21.02663	2.483502	8.466526	0.0000
DEBIT	10.82104	3.264442	3.314822	0.0009
ITEMS	19.60699	1.167439	16.79487	0.0000
D1	14.04192	6.151597	2.282647	0.0225
D2	13.29092	4.722352	2.814470	0.0049
D3	30.29812	4.253952	7.122346	0.0000
D4	24.78923	4.270273	5.805069	0.0000
D5	25.17699	3.328181	7.564791	0.0000
D6	29.39342	3.583032	8.203505	0.0000
D7	24.84729	3.011208	8.251604	0.0000
D8	24.95608	4.483513	5.566189	0.0000
D9	34.93882	4.527401	7.717192	0.0000
D10	30.99943	7.964172	3.892361	0.0001
D11	22.35420	3.858056	5.794162	0.0000
D12	33.97924	3.357266	10.12110	0.0000
D13	40.00092	5.058296	7.907982	0.0000

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4 820669461	5239543780	5.188428752	5191585787	8 421912695	5260112697
4 824378663	5260112605	5.376511959	5228548472	8 559633359	5224524902
4 866222303	5217064740	5.384999281	5204600650	9 342686206	5209254893
4 971322057	5200763284	5.422240873	5259027719	9 515514905	5232851668
4 980993251	5217064779	5.564305739	5209255017	9 954494371	5204600684
5 041951798	5228548473	5.661122562	5213161401	10 7010703	5220160325
5 051527518	5228548488	5.714471568	5235403099	11 71888329	5224524927
5 053868881	5200763247	6 661962376	5205967892	12 75737964	5224524901
5 069640803	5209940879	7.073386367	5224524892	33 10372641	5198798207
5 079587659	5228548352	7.261145259	5255577819	35 83391098	5251962872
5 090557269	5256605999	7.32772247	5225215146		
5 094334058	5204600365	7.429769369	5251962858		
5 188228454	5217065020	7.827524674	5200763248		

Note that there are 250 observations with a studentized residual above 2.0 and 117 observations with a studentized residual above 3.0.

The recommended model appears in Library Reference USPS-LR-L-80. It was arrived at through a set of research steps regarding unusual observations: (1) Calculating the residuals for analysis, (2) dropping observations with large negative residuals, (3) investigation of dropping observations with large positive residuals, and (4) investigation of dropping observations with very short transaction times. Note that all of these analyses are now subsumed in the outlier statistic analysis described above and can not be replicated. Instead the set of analyses are replace by the following regression analysis that estimates the transaction time equation with those observation with a studentized residual greater 3.0 in absolute valued dropped. This leads to dropping 117 observations (as opposed to the 19 dropped in my approach).¹

¹ Dropping all observations with a studentized residual greater than 2.0 (in absolute value) would mean elimination of 250 data points. This is over 3% of the collected data.

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2.306195108	5209940631	2.704344101	5220159955	3.298097004	5235403013
2.309023489	5217966452	2.708160315	5196004333	3.334899872	5217065014
2.338070101	5222133721	2.723364883	5209254829	3.362153146	5260112410
2.340649426	5224524607	2.740835871	5224998520	3.408737112	5217966604
2.345977717	5235403022	2.747522287	5224998495	3.424705418	5249427039
2.347806263	5231776263	2.749298148	5225215261	3.441122977	5255578064
2.348397008	5255577963	2.752269508	5229012404	3.446314957	5198798188
2.35177879	5202686764	2.762181329	5231776284	3.448079042	5260112364
2.352713609	5232851641	2.767755729	5209940908	3.521925279	5228548246
2.352786238	5192392107	2.78205074	5260112363	3.524373445	5200763345
2.35710473	5217873378	2.788891822	5228829357	3.526203653	5232851621
2.376598691	5215045291	2.814928095	5224524907	3.627445848	5255577790
2.398731967	5219586296	2.827609462	5217873429	3.668119042	5209254923
2.403023443	5232851613	2.832629731	5213161711	3.701906525	5228548319
2.415170704	5217065022	2.847180222	5260112702	3.725433025	5217064759
2.42437268	5235402978	2.856468761	5200763064	3.72655452	5253926490
2.449685193	5258530334	2.870466226	5198798307	3.782512838	5204600352
2.45180208	5217064790	2.874829413	5191585724	3.801434531	5255577789
2.465387856	5209940910	2.8813534	5198798348	3.837129233	5224524925
2.476749508	5200763279	2.892281119	5249427020	3.887406366	5245114803
2.478801581	5224524928	2.906044767	5239543779	3.887406366	5245114804
2.495211573	5212132690	2.911190575	5198798195	3.905360656	5191585457
2.512683551	5217065025	2.922174732	5231776258	3.905360656	5191585458
2.515983036	5253926412	2.958007226	5209940649	3.944393924	5239543873
2.517987795	5217966526	2.977865092	5245114418	3.958764835	5204600380
2.533470693	5230299444	2.986883206	5249426898	3.971348064	5255578063
2.550462577	5228829121	3.016661293	5228548510	3.971902503	5217064765
2.565297225	5215045232	3.025711429	5211474988	3.99195762	5221161528
2.565534574	5211475172	3.049951985	5224524924	4.093165412	5191585630
2.572369744	5253926398	3.057697106	5245114866	4.129024824	5260112357
2.582471262	5224524667	3.111537982	5239543554	4.137990888	5209255046
2.587079677	5224524903	3.114064905	5243812472	4.237667585	5191585531
2.595976306	5215045262	3.121175296	5217873428	4.251099356	5245114868
2.609998039	5205967797	3.123153992	5204600363	4.26135127	5249427007
2.612341466	5217064890	3.125346419	5232851657	4.267943987	5196004334
2.622282745	5198798556	3.129225272	5249426423	4.299890881	5209940886
2.624937821	5217064756	3.160290379	5209254828	4.349590341	5198798289
2.636354829	5230299439	3.210059411	5205967709	4.352678257	5198798579
2.649491226	5224524863	3.234238215	5196004493	4.398072505	5232851578
2.653498787	5226135419	3.236859255	5196004517	4.484254975	5260112358
2.656910429	5205967708	3.240252438	5198798315	4.573135821	5212132485
2.666398296	5191585552	3.268970023	5243812376	4.648278544	5205967584
2.687024802	5196004571	3.271488921	5211475179	4.718289355	5200763249
2.695618974	5200763066	3.294050898	5251963074	4.725185513	5228548279
2.700620842	5224524905	3.295327112	5228548495	4.766397363	5224524685

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Because of these considerations, I choose what I consider a measured approach to outlier elimination. This process included careful examination of the data before estimation to identify potentially unusual data points and an observation-by-observation review of those points eliminated. In this way, one can have some understanding of why the data points were not to be used. Similarly, I looked at the distribution of the residuals from the regression to identify points that again were potentially anomalous. I looked at the tails of the distribution and then examined data for all regressors for those observations to determine why the observation was associated with a very large or small residual. I took this approach in part, because if followed the procedure I used for dealing with outliers in my Docket No. R97-1 transportation testimony, which was accepted by the Commission. However, because it's a "hands on" approach to examining potential outliers, this approach did not rely upon a formal statistical test.

As mentioned above more formal outlier measures have been proposed and a well known measure is the studentized residuals. In general, a studentized residual is a residual divided by its standard error, but in outlier analysis is important to have an "externally" studentized residual. Externally studentized residuals have the standard error calculated with the observation removed, thus eliminating the possibility that a large outlier could contribute to a large standard error and thus make it harder to identify the outlier itself. The formula the externally studentized residual is given by:

$$r_i = \frac{e_i}{\sqrt{s_{(i)} (1 - h_{ii})}},$$

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7. On pages 22-24 of USPS-T-17, witness Bradley discusses removing 9 observations that had large values. Witness Bradley also discusses removing 10 observations with large negative residuals on page 25. Did witness Bradley employ a statistical test to determine which observations had "large" residuals?

- a. If not, please provide the results of a suitable test for outliers for the recommended models in USPS-LR-L-80 and USPS-LR-L-81 performed with the sample data, along with documentation of these tests. Please identify the outlier statistic used, the value used to identify observations with potentially large influences on least squares estimates, and a listing of the potentially influential observations identified by its value for the variable "bkstid" along with the corresponding outlier test static value. Please rerun the regressions performed in USPS-LR-L-80 and USPS-LR-L-81 after eliminating the identified influential observations, and report the regression output.
- b. Please provide the information requested in 7.a., if witness Bradley did perform such a statistical test for outliers.

Response:

The identification of "outliers" is not an exact science and inevitably involves the application of judgment. Even the relatively mechanistic approach contemplated in this question involves the choice of an outlier statistic and a test statistic value. Different authors have suggested different measures and have suggested different test statistics for the same outlier measure. In part, this arises because the definition of outlier is not agreed upon. Finally, even after "outliers" are identified, it is not necessarily clear that they all should be eliminated from the regression data set. The simple fact that an observation is far from the regression line either in the x or y dimension does not mean that it is invalid and may not contain useful information in estimating the regression. There can be instances in which an extreme value provides insight into the underlying phenomenon being estimated.

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where e_i is the residual, $s_{(i)}$ is the standard error with the i th observation left out and h_{ii} is the i th diagonal from the well known "hat" matrix. Under the assumption the errors are normally distributed this outlier statistic has the student t distribution. However, given the large number of observations in the current regression we can apply the standard rule that observations with a studentized residual above 3.0 (in absolute value) are likely outliers and those with a studentized residual above 2.0 (in absolute value) bear investigation.

Below is a listing of studentized residuals with a value above 2.0 (in absolute value) along with their "basket ids":

Studentized Residual	BSKTID	-2.415888588	5224998288	2.060952965	5222133779
-9.214842721	5224808246	-2.372936599	5249034376	2.068279797	5217966463
-8.081510267	5253926578	-2.31688011	5198798557	2.069325941	5231776261
-6.109066682	5228548508	-2.165101693	5228829198	2.072670317	5198798231
-4.976507567	5204600699	-2.048807721	5202686920	2.080445819	5213161735
-4.625538821	5204600585	-2.037305646	5260112701	2.093330319	5217873357
-4.525307125	5232851729	-2.006779232	5205967777	2.093632063	5219586304
-4.414005601	5232851741	-2.005528945	5211475009	2.095660957	5239543489
-4.283843349	5204600396	2.009563758	5253926638	2.096656272	5234877302
-4.206192082	5220160205	2.010805085	5253926637	2.103508851	5228548294
-4.200912363	5234877334	2.010805085	5253926639	2.104823959	5221161381
-4.024258313	5224998539	2.012263199	5205967734	2.118905334	5219586228
-4.01382538	5230299463	2.013727101	5220159981	2.119034772	5212132515
-3.63863623	5191585460	2.015506075	5234877305	2.128430292	5250085753
-3.316706079	5232851596	2.018394977	5202686903	2.128904415	5204600367
-3.312495816	5239543867	2.020533543	5232851612	2.130810124	5224808028
-3.214858771	5224998547	2.030033955	5225215253	2.190423315	5239543681
-3.030432866	5224998271	2.032022141	5224998314	2.207657822	5204600621
-2.947977121	5221161371	2.035488773	5224807872	2.22573079	5228829085
-2.829628034	5229012628	2.038060301	5228829404	2.233468266	5215045212
-2.754907214	5229012662	2.0460743	5228548464	2.234213392	5232851835
-2.680627348	5224998494	2.051072172	5204600402	2.254248296	5235402983
-2.543675262	5196004551	2.054577306	5228548454	2.256599247	5230299459
-2.511766161	5228829440	2.055193978	5228548489	2.264599976	5217064747
-2.493174769	5209255090	2.057101648	5225215278	2.273351138	5202686702
-2.449807178	5200763046	2.059496908	5250085749	2.28615041	5198798576
		2.060398203	5245114310	2.299303496	5215045147

Methodology

This was done interactively in Eviews by specifying a subset of the data for which $x > 0$ where x is the name of the product being measured.

This was done interactively in Eviews by specifying a subset of the data for which $item = 1$ and $qty = 1$, and $x > 0$ where x is the name of the product being measured. The "Descriptive Statistics" command was used on the variable "Time" to calculate total time.

This was done interactively in Eviews by specifying a subset of the data for which $item = 1$ and $qty > 1$, and $x > 0$ where x is the name of the product being measured. The "Descriptive Statistics" command was used on the variable "Time" to calculate total time.

This was done interactively in Eviews by using the "Descriptive Statistics" command.

ary Reference.L81.wf1

Variable	Calculation
Transactions	This is just an enumeration of the number of transactions in which the product was purchased.
SISQ Time	This just a sum of the time across all transactions in which there was a single item and a single quantity purchased for the product.
SISQ Time	This is just a sum of the time across all transactions in which there was a single item and multiple quantity purchased for the product.
Total Quantity	This is just a sum found by adding the volumes across transactions.

Source for all variables: *Eviews Workfiles: Library.Reference.L80.wf1 and Libr*

Methodology

This was done interactively in Eviews by specifying a subset of the data for which item =1 and qty =1, and $x > 0$ where x is the name of the product being measured.

This was done interactively in Eviews by specifying a subset of the data for which item =1 and qty > 1, and $x > 0$ where x is the name of the product being measured.

This was done interactively in Eviews by using the "Descriptive Statistics" command.

Variable	Calculation
The number of SISQ Transactions	This is just an enumeration of the number of transactions in which there was a single item and a single quantity purchased for the product.
The number of SIMQ Transactions	This is just an enumeration of the number of transactions in which there was a single item and multiple quantities purchased for the product.
Mean Volumes	This is a simple average found by taking the total volume and dividing by the number of observations

Source for all variables: *Eviews Workfile: Library.Reference.L80.wf1*

Total Quantity	Avg Transaction Time
287	42.3

Total Quantity	Avg Transaction Time
418	35.1

Total Quantity	Avg Transaction Time
98	151.1

Total Quantity	Avg Transaction Time
189	27.8

Total Quantity	Avg Transaction Time
229	40.4

Total Quantity	Avg Transaction Time
514	96.1

Total Quantity	Avg Transaction Time
2313	46.5

Total Quantity	Avg Transaction Time
390	53.2

Total Quantity	Avg Transaction Time
3666	22.0

Total Quantity	Avg Transaction Time
2930	27.9

Total Quantity	Avg Transaction Time
365	123.0

Total Quantity	Avg Transaction Time
1364	9.1

Total Quantity	Avg Transaction Time
127	53.3

159 Transactions.

SISQ Time	SIMQ Time	$\beta(k)$	MI Quantity	MI Time	Total Time
4,839.0	1,581.0	26.7	214	5714.8	12134.8

Insurance

314 Transactions.

SISQ Time	SIMQ Time	$\beta(k)$	MI Quantity	MI Time	Total Time
0.0	0.0	35.1	418	14686.5	14686.5

PO BOX

82 Transactions.

SISQ Time	SIMQ Time	$\beta(k)$	MI Quantity	MI Time	Total Time
8,248.0	4,782.0	118.5	15	1776.9	14806.9

Ins 50 and Below

149 Transactions.

SISQ Time	SIMQ Time	$\beta(k)$	MI Quantity	MI Time	Total Time
0.0	0.0	27.8	189	5261.9	5261.9

Ins Above 50

180 Transactions.

SISQ Time	SIMQ Time	$\beta(k)$	MI Quantity	MI Time	Total Time
0.0	0.0	40.4	229	9251.0	9251.0

International
333 Transactions

SISQ Time	SIMQ Time	$\beta(k)$	MI Quantity	MI Time	Total Time
21,325.0	7,376.0	67.1	308	20676.7	49377.7

Priority Mail
1,551 Transactions

SISQ Time	SIMQ Time	$\beta(k)$	MI Quantity	MI Time	Total Time
49,275.0	13,964.0	28.4	1555	44214.1	107453.1

Parcel Post
291 Transactions

SISQ Time	SIMQ Time	$\beta(k)$	MI Quantity	MI Time	Total Time
6,472.0	2,138.0	42.3	287	12127.4	20737.4

Stamp Bulk
2,023 Transactions.

SISQ Time	SIMQ Time	$\beta(k)$	MI Quantity	MI Time	Total Time
45,669.0	29,879.0	3.6	1408	5073.2	80621.2

First Class
1,780 Transactions.

SISQ Time	SIMQ Time	$\beta(k)$	MI Quantity	MI Time	Total Time
32,982.0	17,437.0	16.0	1961	31321.4	81740.4

Express Mail
323 Transactions.

SISQ Time	SIMQ Time	$\beta(k)$	MI Quantity	MI Time	Total Time
31,739.0	4,738.0	78.7	107	8419.6	44896.6

Other Special Services
841 Transactions.

SISQ Time	SIMQ Time	$\beta(k)$	MI Quantity	MI Time	Total Time
1,059.0	0.0	8.4	1355	11406.0	12465.0

PVI
101 Transactions.

SISQ Time	SIMQ Time	$\beta(k)$	MI Quantity	MI Time	Total Time
3,302.0	1,024.0	34.4	71	2439.6	6765.6

Other Weigh & Rate

Calculating the average intercept:

Variable	Coefficient	Mean	
D1	20.29931	0.014311	0.290504
D2	21.16267	0.0259625	0.549436
D3	35.21348	0.0322948	1.137213
D4	33.17274	0.0338146	1.121723
D5	32.78183	0.0586373	1.922237
D6	34.03762	0.0488855	1.663946
D7	34.82864	0.0776342	2.703895
D8	30.8646	0.0297619	0.918589
D9	42.22087	0.0283688	1.197755
D10	44.88277	0.0084853	0.380844
D11	32.91884	0.0420466	1.384125
D12	40.27003	0.0591439	2.381725
D13	51.22321	0.0226697	1.161215
D14	112.0318	0.0231763	2.596482
D15	96.52319	0.0420466	4.058473
D16	88.01912	0.0353343	3.110098
D17	74.40376	0.0473658	3.52419
D18	16.80989	0.029382	0.493908
D19	58.12421	0.037614	2.186283
D20	53.53818	0.0183637	0.983161
D21	51.97253	0.0392604	2.040462
D22	73.90529	0.0126646	0.935984
D23	51.92103	0.037614	1.952957
D24	59.85784	0.06269	3.752486
D25	59.95123	0.0490122	2.938339
D26	48.39141	0.0444529	2.151138
D27	51.63491	0.0390071	2.014128

Average 49.5513

Calculating the average payment variable:

Variable	Coefficient	Mean
CHECK	28.03326	0.055598
CREDIT	26.45875	0.110816
DEBIT	9.055572	0.055344
Average		4.9918176

Step 3: Calculate the Overall Stamps Variability

The following formula, from USPS-T-17 is used to calculate the product specific times.

$$Y_k = (n_{SISQ_k} + n_{SIMQ_k})\beta_0 + \beta_k X_k.$$

Item	Product Specific	
	Time	Variability
Stamps Bulk	95,858.2	41.0%
Stamps Non Bulk	49,765.4	68.0%
PVI	7,270.7	60.6%
Overall	152,894.3	50.7%

LIBRARY REFERENCE LR-L-80: Calculating Supply Side Variabilities . Window Service

The following formula, from USPS-T-17 is used to calculate the variabilities

$$\lambda_k = \frac{(\beta_0 \rho_k + \beta_k) \bar{X}_k}{(\rho_k + \delta_k) \beta_0 + \beta_k \bar{X}_k}$$

Step 1: Calculate $\beta(0)$

$\beta(0)$ is calculated as the average value for the site-specific intercepts, the payment variables and the item variable.

Parameters:

Intercept	49.55
Payment	4.99
Items	13.07132
$\beta(0)$	67.61
n	7896

Source for all parameters: Recommended Model in Library.Reference.L80.wf1

Step 2: Calculate $\lambda(k)$:

Product	Number of SISQ Transactions	Number of SIMQ Transactions	$\rho(k)$	$\delta(k)$	$\beta(k)$	Mean Volume	Variability
Stamps Bulk	835	388	0.105749747	0.0491388	3.60311	0.4628	41.0%
Stamps Non-Bulk	257	372	0.032548126	0.04711246	0.59843	1.5313	68.0%
Priority	511	91	0.064716312	0.01152482	28.43348	0.2776	69.8%
First Class	505	170	0.063956434	0.02152989	15.97216	0.3706	64.3%
Parcel Post	71	14	0.008991895	0.00177305	42.25558	0.0494	75.2%
Other W& R	48	9	0.006079027	0.00113982	26.70474	0.0363	67.6%
Express Mail	214	21	0.02710233	0.00265957	78.68753	0.0461	65.8%
Money Order	337	118	0.042679838	0.01494428	36.57418	0.1577	64.4%
Certified	0	0	0	0	8.318876	0.0727	100.0%
Insurance	0	0	0	0	35.13506	0.0529	100.0%
Registered	0	0	0	0	188.2448	0.0024	100.0%
International	119	33	0.015070922	0.00417933	67.13207	0.0650	78.2%
PO Box	53	15	0.006712259	0.0018997	118.4571	0.0124	71.9%
COD	0	0	0	0	168.9119	0.0004	100.0%
Other SS	1	0	0.000126646	0	8.417748	0.1637	99.5%
PVI	36	7	0.004559271	0.00088652	34.36109	0.0161	60.6%

Source for all variables: Eviews Workfile: Library.Reference.L80.wf1

Response of Postal Service Witness Michael D. Bradley (USPS-T-17)
To Presiding Officer's Information Request POIR No. 7

D7	34.98230	3.585145	9.757568	0.0000
D8	30.71109	4.273934	7.185672	0.0000
D9	42.19471	4.916038	8.583073	0.0000
D10	44.86697	10.99777	4.079645	0.0000
D11	32.93817	4.995860	6.593094	0.0000
D12	40.33322	3.947854	10.21649	0.0000
D13	51.06599	8.051736	6.342233	0.0000
D14	112.1361	9.382095	11.95214	0.0000
D15	96.35127	9.431866	10.21550	0.0000
D16	88.06288	6.865407	12.82705	0.0000
D17	74.54931	5.838706	12.76812	0.0000
D18	16.84614	6.728252	2.503791	0.0123
D19	58.05712	6.028667	9.630174	0.0000
D20	53.45167	6.499657	8.223767	0.0000
D21	52.10781	5.692061	9.154472	0.0000
D22	73.75080	9.750810	7.563556	0.0000
D23	52.27376	6.424006	8.137253	0.0000
D24	59.83564	5.955015	10.04794	0.0000
D25	59.97438	5.989378	10.01346	0.0000
D26	48.41968	5.813453	8.328901	0.0000
D27	51.71989	5.255539	9.841025	0.0000
<hr/>				
R-squared	0.500443	Mean dependent var	120.1239	
Adjusted R-squared	0.497066	S.D. dependent var	122.9973	
S.E. of regression	87.22698	Akaike info criterion	11.78172	
Sum squared resid	59666224	Schwarz criterion	11.82942	
Log likelihood	-46460.23	Durbin-Watson stat	0.944563	

c. The requested spreadsheets are attached to this response.

d. The requested spreadsheet is attached to this response

e. The requested spreadsheet is attached to this response

**Response of Postal Service Witness Michael D. Bradley (USPS-T-17)
To Presiding Officer's Information Request POIR No. 7**

Including Insurance Breakout:

Dependent Variable: TIME

Method: Least Squares

Sample: 1 7915 IF STMPNO < 500 AND TIME < 2400 AND STMPEN
< 500 AND PM < 100 AND PMRESIDS > -400

Included observations: 7896

White Heteroskedasticity-Consistent Standard Errors & Covariance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CERT	8.350327	3.334363	2.504325	0.0123
FC	15.96271	1.178704	13.54259	0.0000
STMPSCN	3.608045	0.802606	4.495412	0.0000
STMPNO	0.597785	0.138020	4.331159	0.0000
PM	28.45030	1.709826	16.63930	0.0000
MC	36.56952	3.991353	9.162185	0.0000
PP	42.51246	8.122219	5.234094	0.0000
OWR	26.72874	5.788835	4.617292	0.0000
EM	78.65826	4.424144	17.77932	0.0000
PV	34.32491	7.753937	4.426771	0.0000
INS49	27.84086	7.620183	3.653568	0.0003
INS50	40.39736	8.338692	4.844568	0.0000
RP	11.15405	3.391144	3.289170	0.0010
INTERNATL	67.19527	5.401303	12.44057	0.0000
STMPEN	1.047600	0.464152	2.257022	0.0240
REGINS	188.1428	44.96510	4.184196	0.0000
PASS	524.5941	45.90139	11.42872	0.0000
RETAIL	52.22659	13.90671	3.755496	0.0002
BOX	118.4621	16.92641	6.998655	0.0000
DOMCOD	168.7699	5.480318	30.79563	0.0000
FCENCL	56.02070	7.210800	7.768998	0.0000
OSS	8.363403	2.081828	4.017336	0.0001
SERVICES	40.75046	3.702178	11.00716	0.0000
CHECK	27.86190	4.456124	6.252497	0.0000
CREDIT	26.35962	4.019610	6.557756	0.0000
DEBIT	8.828790	4.548701	1.940948	0.0523
ITEMS	13.07137	2.176024	6.006999	0.0000
D1	20.46973	4.500776	4.548045	0.0000
D2	21.11548	5.233606	4.034595	0.0001
D3	35.24786	4.867182	7.241945	0.0000
D4	33.30498	5.146057	6.471941	0.0000
D5	32.88365	3.763695	8.737067	0.0000
D6	34.21585	3.483246	9.822980	0.0000

Response of Postal Service Witness Michael D. Bradley (USPS-T-17)
To Presiding Officer's Information Request POIR No. 7

D6	33.59848	3.455805	9.722330	0.0000
D7	34.99563	3.575967	9.786339	0.0000
D8	31.18682	4.274872	7.295380	0.0000
D9	42.58628	4.923194	8.650133	0.0000
D10	44.96853	11.03128	4.076458	0.0000
D11	33.11120	4.994426	6.629631	0.0000
D12	40.11120	3.920958	10.22995	0.0000
D13	51.50477	8.054724	6.394355	0.0000
D14	112.2079	9.368873	11.97667	0.0000
D15	96.87221	9.431794	10.27081	0.0000
D16	88.26194	6.864759	12.85725	0.0000
D17	74.69419	5.821629	12.83046	0.0000
D18	16.71484	6.758630	2.473111	0.0134
D19	58.53462	6.034561	9.699897	0.0000
D20	53.70813	6.501051	8.261453	0.0000
D21	52.23321	5.690351	9.179259	0.0000
D22	74.39182	9.791571	7.597537	0.0000
D23	52.15101	6.368261	8.189207	0.0000
D24	59.97323	5.953848	10.07302	0.0000
D25	59.97219	5.962289	10.05858	0.0000
D26	48.75773	5.816621	8.382484	0.0000
D27	52.05799	5.261004	9.895068	0.0000
<hr/>				
R-squared	0.500668	Mean dependent var	120.1239	
Adjusted R-squared	0.497293	S.D. dependent var	122.9973	
S.E. of regression	87.20732	Akaike info criterion	11.78127	
Sum squared resid	59639324	Schwarz criterion	11.82896	
Log likelihood	-46458.45	Durbin-Watson stat	0.951598	

**Response of Postal Service Witness Michael D. Bradley (USPS-T-17)
To Presiding Officer's Information Request POIR No. 7**

Including An "Other" Variable:

Dependent Variable: TIME

Method: Least Squares

Sample: 1 7915 IF STMPNO < 500 AND TIME < 2400 AND STMPEN
< 500 AND PM < 100 AND PMRESIDS > -400

Included observations: 7896

White Heteroskedasticity-Consistent Standard Errors & Covariance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CERT	9.163893	3.393128	2.700721	0.0069
FC	15.27393	1.362726	11.20836	0.0000
STMPSCN	3.673085	0.796385	4.612197	0.0000
STMPNO	0.599028	0.137805	4.346913	0.0000
PM	28.47622	1.718569	16.56972	0.0000
MO	36.66548	3.989032	9.191574	0.0000
PP	42.24322	8.164245	5.174173	0.0000
OWR	26.95244	5.739266	4.696149	0.0000
EM	78.78097	4.424753	17.80460	0.0000
PVI	34.52581	7.778395	4.438680	0.0000
INS	35.52886	5.002345	7.102442	0.0000
RP	11.52885	3.395655	3.395178	0.0007
INTERNATL	67.20114	5.445737	12.34014	0.0000
STMPEN	1.063885	0.465145	2.287210	0.0222
REGINS	188.8087	44.68596	4.225235	0.0000
PASS	524.1485	45.96832	11.40239	0.0000
RETAIL	52.21691	13.94399	3.744761	0.0002
BOX	118.1963	16.90005	6.993841	0.0000
DOMCOD	169.2422	5.514324	30.69138	0.0000
FCENCL	56.23973	7.206366	7.804174	0.0000
OSS	8.539047	2.121775	4.024483	0.0001
SERVICES	40.92498	3.701391	11.05665	0.0000
OTH	7.363298	3.200987	2.300321	0.0215
CHECK	28.33038	4.459000	6.353528	0.0000
CREDIT	26.45438	4.031562	6.561819	0.0000
DEBT	9.340498	4.547017	2.054204	0.0400
ITEMS	12.78731	2.184515	5.853614	0.0000
D1	19.81831	4.491652	4.412254	0.0000
D2	21.32543	5.234364	4.074120	0.0000
D3	34.58355	4.873044	7.096910	0.0000
D4	33.23827	5.129751	6.479509	0.0000
D5	33.14316	3.768492	8.794808	0.0000

Response of Postal Service Witness Michael D. Bradley (USPS-T-17)
To Presiding Officer's Information Request POIR No. 7

Including Only a Single Intercept:

Dependent Variable: TIME

Method: Least Squares

Sample: 1 7915 IF STMPNO < 500 AND TIME < 2400 AND STMPEN

< 500 AND PMRESIDS > -400

Included observations: 7896

White Heteroskedasticity-Consistent Standard Errors & Covariance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	41.21778	2.771472	14.87216	0.0000
CERT	7.169842	3.418783	2.097191	0.0360
FC	15.05439	1.239440	12.14613	0.0000
STMPSCN	3.092452	0.852388	3.627986	0.0003
STMPNO	0.630878	0.146750	4.299005	0.0000
PM	28.21304	1.765399	15.98111	0.0000
MO	36.14791	3.920689	9.219784	0.0000
PP	39.51521	8.310565	4.754816	0.0000
OWR	25.92826	6.079385	4.264949	0.0000
EM	80.49815	4.408094	18.26144	0.0000
PVI	29.89462	7.920417	3.774375	0.0002
INS	32.84811	5.046796	6.508706	0.0000
RP	9.409552	3.327457	2.827851	0.0047
INTERNATL	68.55937	5.571389	12.30561	0.0000
STMPEN	0.626330	0.417934	1.498634	0.1340
REGINS	189.2795	45.90845	4.122976	0.0000
PASS	529.6922	47.42881	11.16815	0.0000
RETAIL	50.16308	13.15006	3.814665	0.0001
BOX	117.9787	18.32253	6.438998	0.0000
DOMCOD	160.3187	5.514251	29.07352	0.0000
FCENCL	54.97292	6.160928	8.922832	0.0000
OSS	8.044516	2.136696	3.764933	0.0002
SERVICES	38.42152	3.817847	10.06366	0.0000
CHECK	20.25384	4.574858	4.427207	0.0000
CREDIT	27.21648	4.181011	6.509546	0.0000
DEBIT	9.341817	4.634421	2.015747	0.0439
ITEMS	19.44051	2.114550	9.193690	0.0000
R-squared	0.476014	Mean dependent var	120.1239	
Adjusted R-squared	0.474283	S.D. dependent var	122.9973	
S.E. of regression	89.18083	Akaike info criterion	11.82262	
Sum squared resid	62583889	Schwarz criterion	11.84647	
Log likelihood	-46648.71	F-statistic	274.9457	
Durbin-Watson stat	0.933610	Prob(F-statistic)	0.000000	

Response of Postal Service Witness Michael D. Bradley (USPS-T-17)
To Presiding Officer's Information Request POIR No. 7

D8	31.01932	4.272225	7.260695	0.0000
D9	43.20810	4.950165	8.728619	0.0000
D10	45.03796	11.05527	4.073892	0.0000
D11	33.05486	4.991989	6.621581	0.0000
D12	41.24613	3.945206	10.45475	0.0000
D13	51.36086	8.058018	6.373882	0.0000
D14	112.8827	9.407474	11.99926	0.0000
D15	97.17779	9.445372	10.28840	0.0000
D16	88.18210	6.865162	12.84487	0.0000
D17	74.61852	5.818679	12.82396	0.0000
D18	16.98201	6.732501	2.522393	0.0117
D19	59.03809	6.007038	9.828153	0.0000
D20	53.80222	6.494009	8.284901	0.0000
D21	52.13353	5.691704	9.159565	0.0000
D22	76.09665	9.864506	7.714187	0.0000
D23	53.12090	6.391672	8.310956	0.0000
D24	60.54877	5.977250	10.12987	0.0000
D25	60.68454	6.019742	10.08092	0.0000
D26	49.16753	5.826027	8.439288	0.0000
D27	52.07090	5.262509	9.894690	0.0000
<hr/>				
R-squared	0.500376	Mean dependent var	120.7361	
Adjusted R-squared	0.497046	S.D. dependent var	123.0396	
S.E. of regression	87.25880	Akaike info criterion	11.78236	
Sum squared resid	59397575	Schwarz criterion	11.82939	
Log likelihood	-46216.32	Durbin-Watson stat	0.947460	

Response of Postal Service Witness Michael D. Bradley (USPS-T-17)
To Presiding Officer's Information Request POIR No. 7

Dropping Observations with Very Short Times:

Dependent Variable: TIME

Method: Least Squares

Sample: 1 7915 IF STMPNO < 500 AND TIME < 2400 AND STMPEN

< 500 AND PM < 100 AND PMRESIDS > -400 AND TIME > 9

Included observations: 7854

White Heteroskedasticity-Consistent Standard Errors & Covariance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CERT	8.429644	3.326727	2.533915	0.0113
FC	15.93721	1.173070	13.58590	0.0000
STMPSCN	3.548683	0.806839	4.398253	0.0000
STMPNO	0.594831	0.138323	4.300289	0.0000
PM	28.38060	1.692964	16.76385	0.0000
MO	36.70837	3.993832	9.191265	0.0000
PF	42.12409	8.169201	5.156452	0.0000
OWR	26.68810	5.778082	4.618852	0.0000
EM	78.77683	4.410355	17.86179	0.0000
PVI	34.31292	7.755184	4.424514	0.0000
INS	35.08813	4.992074	7.028768	0.0000
RF	11.22855	3.386220	3.315954	0.0009
INTERNATL	67.05218	5.397859	12.42199	0.0000
STMPEN	1.049471	0.463584	2.263823	0.0236
REGINS	188.3077	44.93360	4.190799	0.0000
PASS	524.1757	45.90099	11.41970	0.0000
RETAIL	52.21154	13.83794	3.773073	0.0002
BOX	118.0241	16.92998	6.971306	0.0000
DOMCOD	169.1676	5.504897	30.73039	0.0000
FCENCL	56.29700	7.220331	7.797011	0.0000
OSS	8.409194	2.080455	4.041998	0.0001
SERVICES	41.07511	3.718651	11.04570	0.0000
CHECK	28.36559	4.463995	6.354307	0.0000
CREDIT	26.27181	4.032879	6.514407	0.0000
DEBIT	9.885479	4.532280	2.181127	0.0292
ITEMS	12.94068	2.175495	5.948384	0.0000
D1	20.99839	4.497848	4.668541	0.0000
D2	21.95933	5.253231	4.180157	0.0000
D3	36.71425	4.952274	7.413615	0.0000
D4	34.72466	5.156833	6.733717	0.0000
D5	32.90470	3.760649	8.749741	0.0000
D6	34.43585	3.466878	9.932813	0.0000
D7	35.07064	3.579664	9.797188	0.0000

Response of Postal Service Witness Michael D. Bradley (USPS-T-17)
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D7	32.84550	3.407195	9.640041	0.0000
D8	28.52886	4.061270	7.024615	0.0000
D9	40.16923	4.823544	8.327743	0.0000
D10	42.83053	11.15056	3.841111	0.0001
D11	30.36348	4.819618	6.299977	0.0000
D12	38.10181	3.741466	10.18366	0.0000
D13	42.74724	5.518347	7.746385	0.0000
D14	109.6124	9.333747	11.74366	0.0000
D15	85.20036	7.200075	11.83326	0.0000
D16	85.16129	6.733398	12.64760	0.0000
D17	72.35897	5.575645	12.97769	0.0000
D18	16.49239	6.401680	2.576260	0.0100
D19	55.95010	5.895423	9.490430	0.0000
D20	51.49760	6.382798	8.068186	0.0000
D21	49.92526	5.510902	9.059362	0.0000
D22	71.38494	9.712370	7.349899	0.0000
D23	46.99903	5.600961	8.391244	0.0000
D24	54.45014	4.800572	11.34243	0.0000
D25	55.37917	5.590932	9.905178	0.0000
D26	43.45770	4.876954	8.910827	0.0000
D27	49.55977	5.114933	9.689232	0.0000
<hr/>				
R-squared	0.524639	Mean dependent var	118.7626	
Adjusted R-squared	0.521484	S.D. dependent var	115.9301	
S.E. of regression	80.19448	Akaike info criterion	11.61348	
Sum squared resid	50381667	Schwarz criterion	11.66034	
Log likelihood	-45744.77	Durbin-Watson stat	0.949263	

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Dropping Positive Outliers

Dependent Variable: TIME

Method: Least Squares

Sample: 1 7915 IF STMPNO < 500 AND TIME < 2400 AND STMPEN

< 500 AND PM < 100 AND PMRESIDS > -400 AND PMRESIDS

< 800

Included observations: 7887

White Heteroskedasticity-Consistent Standard Errors & Covariance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CERT	7.502537	3.205222	2.340723	0.0193
FC	15.80861	1.177197	13.42903	0.0000
STMPSCN	3.695170	0.790360	4.675301	0.0000
STMPNO	0.604058	0.136993	4.409406	0.0000
PM	28.65907	1.771154	16.18101	0.0000
MO	37.39567	3.933125	9.507879	0.0000
PP	34.81399	3.675575	9.471713	0.0000
OWR	26.52386	5.789263	4.581561	0.0000
EM	79.78089	4.380308	18.21354	0.0000
PVI	34.01386	7.715318	4.408614	0.0000
INS	32.19089	4.102671	7.846326	0.0000
RP	10.69163	3.371591	3.171093	0.0015
INTERNATL	67.23517	5.420791	12.40320	0.0000
STMPEN	1.020678	0.454760	2.244435	0.0248
REGINS	187.3780	44.93101	4.170349	0.0000
PASS	475.4383	37.11154	12.81107	0.0000
RETAIL	51.39463	13.71469	3.747413	0.0002
BOX	110.8827	15.24101	7.275282	0.0000
DOMCOD	172.6628	3.661621	47.15474	0.0000
FCENCL	54.32879	7.084443	7.668745	0.0000
OSS	8.241306	2.116607	3.893640	0.0001
SERVICES	41.05564	3.676326	11.16757	0.0000
CHECK	28.58998	4.332637	6.598747	0.0000
CREDIT	24.14595	3.677049	6.566667	0.0000
DEBIT	9.906132	4.455454	2.223372	0.0262
ITEMS	15.11104	1.859816	8.125020	0.0000
D1	17.93581	4.309514	4.161910	0.0000
D2	18.80334	5.084515	3.698158	0.0002
D3	32.65194	4.701012	6.945726	0.0000
D4	30.37254	4.912787	6.182345	0.0000
D5	30.30298	3.564712	8.500821	0.0000
D6	31.85116	3.241710	9.825420	0.0000

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D8	31.24394	4.329871	7.215906	0.0000
D9	39.59103	6.267327	6.317053	0.0000
D10	45.56098	11.04232	4.126035	0.0000
D11	33.55508	5.028245	6.673317	0.0000
D12	40.96784	3.985670	10.27878	0.0000
D13	49.74366	8.804207	5.649987	0.0000
D14	112.4476	9.406500	11.95424	0.0000
D15	98.10366	9.928266	9.881248	0.0000
D16	88.43957	6.901136	12.81522	0.0000
D17	76.43605	5.720656	13.36141	0.0000
D18	18.14676	6.640918	2.732569	0.0063
D19	58.65536	6.065931	9.669638	0.0000
D20	54.45978	6.515503	8.358493	0.0000
D21	52.78821	5.641669	9.356843	0.0000
D22	74.43362	9.811057	7.586707	0.0000
D23	52.42649	6.395842	8.196966	0.0000
D24	59.97827	6.115190	9.808079	0.0000
D25	60.47850	6.019716	10.04674	0.0000
D26	47.20478	6.018020	7.843904	0.0000
D27	52.34507	5.290159	9.894801	0.0000
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R-squared	0.472429	Mean dependent var	120.1555	
Adjusted R-squared	0.468935	S.D. dependent var	123.0753	
S.E. of regression	89.69012	Akaike info criterion	11.83728	
Sum squared resid	63172033	Schwarz criterion	11.88404	
Log likelihood	-46739.77	Durbin-Watson stat	0.917597	

Response of Postal Service Witness Michael D. Bradley (USPS-T-17)
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First Estimation: Calculating Residuals for Analysis

Dependent Variable: TIME

Method: Least Squares

Sample: 1 7915 IF STMPNO < 500 AND TIME < 2400 AND STMPEN

< 500 AND PM < 100

Included observations: 7906

White Heteroskedasticity-Consistent Standard Errors & Covariance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CERT	8.051121	3.348545	2.404364	0.0162
FC	16.06183	1.169954	13.72860	0.0000
STMPSCN	3.653675	0.805107	4.538125	0.0000
STMPNO	0.601647	0.138070	4.357558	0.0000
PM	28.52416	1.729075	16.49678	0.0000
MO	36.97173	3.980299	9.288681	0.0000
PP	42.40725	8.171513	5.189645	0.0000
OWR	26.78608	5.811481	4.609166	0.0000
EM	79.20166	4.469639	17.71992	0.0000
PVI	34.56549	7.786512	4.439149	0.0000
INS	35.36976	5.017519	7.049254	0.0000
RP	10.71088	3.429489	3.123171	0.0018
INTERNATL	67.20813	5.410667	12.42141	0.0000
STMPEN	1.077947	0.456802	2.359770	0.0183
REGINS	188.5727	44.85886	4.203689	0.0000
PASS	413.1996	48.32043	8.551241	0.0000
RETAIL	52.47358	13.89677	3.775954	0.0002
BOX	118.9243	16.94402	7.018661	0.0000
DOMCOD	169.0493	5.526574	30.58845	0.0000
FCENCL	56.16054	7.191558	7.809231	0.0000
OSS	8.503380	2.106291	4.037135	0.0001
SERVICES	40.85289	3.709200	11.01394	0.0000
CHECK	25.06746	4.868298	5.149123	0.0000
CREDIT	26.31319	4.193351	6.274980	0.0000
DEBIT	10.99315	4.481975	2.452746	0.0142
ITEMS	12.63258	2.221713	5.685965	0.0000
D1	20.84962	4.543509	4.588881	0.0000
D2	21.56570	5.269950	4.092202	0.0000
D3	35.88859	4.901626	7.321773	0.0000
D4	32.52320	5.338306	6.092420	0.0000
D5	33.44344	3.795881	8.810457	0.0000
D6	34.60798	3.521302	9.828176	0.0000
D7	36.38944	3.721474	9.778232	0.0000

Response of Postal Service Witness Michael D. Bradley (USPS-T-17)

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D8	30.86460	4.270130	7.228023	0.0000
D9	42.22087	4.912773	8.594101	0.0000
D10	44.88277	11.03696	4.066588	0.0000
D11	32.91884	4.989397	6.597760	0.0000
D12	40.27003	3.932804	10.23952	0.0000
D13	51.22321	8.055035	6.359154	0.0000
D14	112.0318	9.374390	11.95083	0.0000
D15	96.52319	9.426190	10.23989	0.0000
D16	88.01912	6.863664	12.82393	0.0000
D17	74.40376	5.816283	12.79232	0.0000
D18	16.80989	6.731929	2.497040	0.0125
D19	58.12421	6.023258	9.649961	0.0000
D20	53.53818	6.492750	8.245841	0.0000
D21	51.97253	5.693071	9.129086	0.0000
D22	73.90529	9.783222	7.554289	0.0000
D23	51.92103	6.364874	8.157432	0.0000
D24	59.85784	5.955376	10.05106	0.0000
D25	59.95123	5.985502	10.01607	0.0000
D26	48.39141	5.809517	8.329680	0.0000
D27	51.63491	5.248371	9.838273	0.0000
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R-squared	0.500220	Mean dependent var	120.1239	
Adjusted R-squared	0.496907	S.D. dependent var	122.9973	
S.E. of regression	87.24084	Akaike info criterion	11.78191	
Sum squared resid	59692786	Schwarz criterion	11.82872	
Log likelihood	-46461.99	Durbin-Watson stat	0.946704	

Response of Postal Service Witness Michael D. Bradley (USPS-T-17)
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Recommend Model:

Dependent Variable: TIME

Method: Least Squares

Sample: 1 7915 IF STMPNO < 500 AND TIME < 2400 AND STMPEN
 < 500 AND PM < 100 AND PMRESIDS > -400

Included observations: 7896

White Heteroskedasticity-Consistent Standard Errors & Covariance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CERT	8.318876	3.328967	2.498936	0.0125
FC	15.97216	1.168368	13.67048	0.0000
STMPSCN	3.603110	0.802554	4.489556	0.0000
STMPNO	0.598430	0.138120	4.332669	0.0000
PM	28.43348	1.707039	16.65661	0.0000
MO	36.57418	3.992010	9.161847	0.0000
PP	42.25558	8.172649	5.170366	0.0000
OWR	26.70474	5.785435	4.615857	0.0000
EM	78.68753	4.421109	17.79814	0.0000
PVI	34.36109	7.760943	4.427437	0.0000
INS	35.13506	4.995985	7.032660	0.0000
RP	11.20250	3.387457	3.307054	0.0009
INTERNATL	67.13207	5.397841	12.43684	0.0000
STMPEN	1.047572	0.463386	2.260691	0.0238
REGINS	188.2448	44.87624	4.194753	0.0000
PASS	524.5339	45.89519	11.42895	0.0000
RETAIL	52.22613	13.90068	3.757093	0.0002
BOX	118.4571	16.92722	6.998025	0.0000
DOMCOD	168.9119	5.508045	30.66640	0.0000
FCENCL	56.18009	7.227281	7.773336	0.0000
OSS	8.417748	2.089547	4.028503	0.0001
SERVICES	40.80251	3.703049	11.01863	0.0000
CHECK	28.03326	4.445842	6.305501	0.0000
CREDIT	26.45875	4.031277	6.563368	0.0000
DEBIT	9.055572	4.545893	1.992034	0.0464
ITEMS	13.07132	2.172563	6.016545	0.0000
D1	20.29931	4.499027	4.511934	0.0000
D2	21.16267	5.237871	4.040318	0.0001
D3	35.21348	4.870588	7.229821	0.0000
D4	33.17274	5.129139	6.467508	0.0000
D5	32.78183	3.757454	8.724480	0.0000
D6	34.03762	3.466854	9.818014	0.0000
D7	34.82864	3.573944	9.745155	0.0000

Response of Postal Service Witness Michael D. Bradley (USPS-T-17)

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have a material effect on the recommended variabilities. The following table presents the original variabilities and those calculated after the modification is put in place.

	Original Variability	Variability After Modification
Stamps Bulk	41.0%	41.0%
Stamps Non-Bulk	68.0%	68.0%
Priority	70.2%	69.8%
First Class	64.2%	64.3%
Parcel Post	75.3%	75.2%
Other W& R	67.5%	67.6%
Express Mail	66.4%	65.8%
Money Order	64.7%	64.4%
Certified	100.0%	100.0%
Insurance	100.0%	100.0%
Registered	100.0%	100.0%
International	78.5%	78.2%
PO Box	72.5%	71.9%
COD	100.0%	100.0%
Other SS	99.4%	99.5%
PVI	59.6%	60.6%

- a. As explained above, no corrections are necessary.

- b. Please see below:

**Response of Postal Service Witness Michael D. Bradley (USPS-T-17)
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6. If the answer to question 5 is in the affirmative, please do the following:

- a. provide a corrected version of "wscleanpos.11.3.05.xls;"
- b. rerun all regressions performed in USPS-LR-L-80 and USPS-LR-L-81, and duplicate the regression output contained in these library references;
- c. provide revised versions of the Excel spreadsheets "Calculating Variabilities.Addendum.xls," and "Average Product Times.R2006.xls;"
- d. provide an Excel spreadsheet showing the calculations made to obtain the following values contained in "Calculating Variabilities.Addendum.xls," if the answers are not provided in response to OCA/USPS-T-17-1;
 - i. number of SISQ transactions for each product shown in step 2, worksheet "Variability Calculation;"
 - ii. number of SIMQ transactions for each product shown in step 2, worksheet "Variability Calculation;"
 - iii. Mean Volumes for each product shown in step 2, worksheet "Variability Calculation;"

Please provide data sources for all calculations made in response to the question.

- e. Provide an Excel spreadsheet showing the calculations made to obtain the following values contained in "Average Product Times.R2006.xls," if the answers are not provided in response to OCA/USPS-T-17-1:
 - i. Transactions;
 - ii. SISQ Time;
 - iii. SIMQ Time;
 - iv. Total Quantity.

Please provide data sources for all calculations made in response to the question.

Response:

The response to Question 6 is not affirmative in the sense that there is no data anomaly and no correction is needed. Thus, there is no need to provide a "corrected version" of wscleanpos.11.3.05.xls. Nevertheless, as a courtesy to the Commission, I will redo both the complete regression analysis and the variability analysis with the suggested modification in place. In what follows, the value for "item" is set to zero whenever "quantity" is equal to zero. The results of the analysis including the modified "item" variable are presented in this response and they show that the modification does not

**Response of Postal Service Witness Michael D. Bradley (USPS-T-17)
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5. Did the data sets used for the regressions performed in USPS-LR-L-80 and USPS-LR-L-81 contain incorrect values for the variable "item" due to this anomaly?

Response:

As explained in my response to Question 4, there is no anomaly in the construction of the item variable. In these transactions, there was a transactional activity for the item *discussed although no quantity was purchased*. This indicates that they are valid transactions. Because these are valid transactions, they are included in the regression data base.

Response of Postal Service Witness Michael D. Bradley (USPS-T-17)
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4. Please confirm that this anomaly occurred because the file "wscleanpos.11.3.05.xls" incorrectly counted a zero-value for a window service item as a positive value for the variable "item."

Response:

Not confirmed. A zero value for a window service item means that there was a transactional activity for an item, although no quantity was ultimately purchased. Examples of non-purchase transaction activities include an inquiry about the product, an acceptance of a previously stamped product, or a customer refusing to purchase the product after an initial intent of purchase. Such a transaction is valid and is not an anomaly. In these instances, there was a transaction in which window time was incurred but no products were purchased.

Response of Postal Service Witness Michael D. Bradley (USPS-T-17)
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3. Please confirm that the file "wscleanpos.11.3.05.xls" in USPS-LR-L-80 contains positive values of the variable "items," and zero values for the variable "quantity" when the variable "bkstid" took the following values: 5190920204, 5190920307, 5200762971, 5200762974, 5200763027, 5200763043, 5200763050, 5200763136, 5200763137, 5200763248, 5200763249, 5200763264, 5200763275, 5200763296, 5200763321, 5200763340, 5200763347, 5200763371, 5200763375, 5200763377, 5200763380, 5202686713, 5202686737, 5202686878, 5204600356, 5204600363, 5204600414, 5204600621, 5204600631, 5204600684, 5204600692, 5204600715, 5205967718, 5205967774, 5209254848, 5209255045, 5209255062, 5209255068, 5211475232, 5215045283, 5217064747, 5217064759, 5217064854, 5217065025, 5217873360, 5217873438, 5217966505, 5219586271, 5219586293, 5220159928, 5220159940, 5220159956, 5220159984, 5220159987, 5220160041, 5220160052, 5220160132, 5220160282, 5220160365, 5221161403, 5222133721, 5224524621, 5224524626, 5224524641, 5224524679, 5224524901, 5224807795, 5225215130, 5225215201, 5225215313, 5225215331, 5226135297, 5228548352, 5228548472, 5228829280, 5230299425, 5230299434, 5230299444, 5230299468, 5230299469, 5230299507, 5230299572, 5232851551, 5232851574, 5235403080, 5238153528, 5238153533, 5239543490, 5239543491, 5239543513, 5239543802, 5243812452, 5244979149, 5245114318, 5245114333, 5245114358, 5245114361, 5245114369, 5245114464, 5245114739, 5245114833, 5245114847, 5245114873, 5249034362, 5249034363, 5249034374, 5249426251, 5249426623, 5249426782, 5249426900, 5250085862, 5250085889, 5253926401, 5253926442, 5253926501, 5253926632, 5255577819, 5255577835, 5255577836, 5255577839, 5255577844, 5258530327, 5258530467, 5260112364, 5260112375, 5260112393, 5260112420, 5260112427, 5212132580, 5220160199, 5224524601, 5226135409, 5228548319, 5230299621, 5231776302, 5239543566, 5245114769, 5256606210, 5224998285, 5228548321, 5228829263, 5230299479.

If you do not confirm, please identify the values of "bkstid" where the variable "items" was positive and the variable "quantity" was zero.

Response:

Confirmed.

17. USPS-T-15 at page 15 states, $\frac{\partial n_{SISQ_k}}{\partial X_k}$ "... can be approximated by assuming that

the rate of change in SISQ transactions of a particular type is equal to their representation in the current population of transactions. The rate of change in SISQ transactions for a particular item is thus approximated by the proportion of those

transactions in all transactions. $\frac{\partial n_{SISQ_k}}{\partial X_k} = \frac{n_{SISQ_k}}{n}$ "

- a. Please identify the economic conditions under which the last mathematical expression would be true.
- b. Please explain why you believe these conditions are approximately true.

RESPONSE:

- a. For this condition to be true, the growth in SISQ transactions for item k would have to equal the growth in the transaction volume for item k adjusted for the size of the volume of item k relative to transactions. This is demonstrated mathematically as:

$$\frac{\partial n_{SISQ_k}}{n_{SISQ_k}} = \frac{\partial X_k}{X_k} \left(\frac{X_k}{n} \right).$$

- b. In the absence of data, it seems reasonable to assume that the growth in new transactions involving item k is driven by the growth in the transactions volume of item k adjusted for the size of the existing transactions volume for item k relative to the number of transactions.

RESPONSE OF POSTAL SERVICE WITNESS BRADLEY (USPS-T-17) TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

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The suggested analysis stipulates a transformation of any cells in that contain multiple quantities of items to the value "1." The transformed data set would thus look like:

Transaction	Time	Stamps	Priority Mail	Special Services
1	50	1	0	0
2	75	1	1	0
3	90	0	1	1
4	25	1	0	0
5	120	0	1	1

This does produce a data set with a categorical variable for each transaction type in each observation. However, the formation of the dependent variable for the proposed regression is problematic. If the regression is run on the data set as currently constructed the dependent variable would have the value "1" for all observations, thus precluding estimation. Alternatively, if the data were aggregated to all transactions, then there would be only one observation, which would also preclude estimation.

RESPONSE OF POSTAL SERVICE WITNESS BRADLEY (USPS-T-17) TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

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16. USPS-T-37 at page 12 states, "... there is no empirical measure of the derivative of total transactions with respect to the transactions volume for product k."
- Please identify the data that would have had to have been collected to perform this calculation.
 - Wouldn't a transformation of any cells in wscleanpos.11.3.05.xls, tab "Final" that contain multiple quantities of items to the value "1" allow a regression of total transactions against the transactions volume for each product that could produce the desired derivative?
 - If not, please explain why not?

RESPONSE:

- The relevant data would be a measure of the different ways that an additional unit of item "k" affects transactions. That is, it would provide information on to what extent item k would create a brand new transaction, join an existing SISQ transaction for item k, join a SISQ or SIMQ transaction for another item, or join an existing MI transaction.
- As I understand the suggestion, I don't think it would.
- To clarify the analysis, let's examine a simplified version of wscleanpos.11.3.05.xls that has only 3 types of transactions: selling stamps, Priority Mail and special services. Also, let's reduce the dimension of our simplified version of wscleanpos.11.3.05.xls, so that it has only five observations. The simplified version would look like:

Transaction	Time	Stamps	Priority Mail	Special Services
1	50	3	0	0
2	75	3	1	0
3	90	0	2	1
4	25	1	0	0
5	120	0	2	4

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15. USPS-LR-L-80 at page 19 states that " $\beta(0)$ is calculated as the average value for the site-specific intercepts, the payment variables and the item variable."

- a. Please identify the payment variables, and provide the coefficients used to make this calculation.
- b. Please confirm that "the average of the payment variables" refers to the average of their coefficients estimated in the Recommended Model on page 7.
- c. If you don't confirm, please describe the means by which you calculated these values and provide the values of the payment variables used in the calculation of $\beta(0)$.

RESPONSE:

- a. The payment variables are Check, Credit and Debit.
- b. Confirmed.
- c. The calculation is a weighted average of the coefficients in which the weights are the mean values for the payment variables. The calculation is given below:

Calculating the average payment variable:

Variable	Coefficient	Mean
CHECK	27.60235	0.053598
CREDIT	25.64015	0.110816
DEBIT	7.955208	0.055344

Average 4.8162473

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D21	30283
D22	70364
D23	119685
D24	69225
D25	128644
D26	4881
D27	119973

- d. I'm not sure what the phrase "were run through the origin" intends, but I can confirm that the specified regressions did not include any intercept terms other than the site-specific dummy variables.
- e. Confirmed.
- f. Confirmed.

- b. The "OWR" was created in EViews and its formula is contained therein. "OWR" stands for Other Weigh & Rate and the variable captures the other weigh and rate transactions not explicitly specified in the equation. It thus includes the sum of Bound Printed Matter, Library Rate and Media Mail weigh and rates. The formula is presented in my response to Question 9, above. The OWR variable is not the same as the "Other" variable in wscleanpos.11.3.05.xls. That variable is entitled "OTH" in the EViews workfile.
- i. It is the sum of Bound Printed Matter, Library Rate and Media Mail weigh and rates.
- ii. Not applicable
- c. The requested table is presented in my response to Question 9 above. It is repeated below for convenience:

D1	85098
D2	98456
D3	84745
D4	69759
D5	39717
D6	21799
D7	20171
D8	2303
D9	36211
D10	107799
D11	127189
D12	40832
D13	116806
D14	30422
D15	4079
D16	120905
D17	118483
D18	126721
D19	123775
D20	27500

14. These questions seek information on how variables in USPS-LR-L-80 were calculated and regressions performed.
- a. How was the variable "Credit" calculated? Which categories of the variable "tender-type" (tentype in worksheet, wscleanpos.11.3.05.xls, Tab "Overview") were used to construct this variable?
 - b. How was the variable "OWR" calculated? Is OWR equal to "Other" in wscleanpos.11.3.05.xls, tab "Final"?
 - i. If OWR can be calculated from variables already contained in wscleanpos.11.3.05.xls, please explain how OWR is calculated.
 - ii. If OWR cannot be calculated from variables already contained in wscleanpos.11.3.05.xls, please provide an Excel spreadsheet that links the values of OWR to the corresponding value of the variable "bkstid" in wscleanpos.11.3.05.xls.
 - c. Please provide a table linking the variable "locID" provided in wscleanpos.11.3.05.xls, tab "Final" with the corresponding dummy variable numbers used in the various regressions presented in this library reference.
 - d. Please confirm that with the exception of the regression entitled, "Including Only A Single Intercept" on page 15, all regressions were run through the origin.
 - e. Please confirm that the identification of high positive and negative residuals referred to on page 25 of USPS-T-17 was made after outlier values for transaction time, stamped envelopes per transaction, priority mail per transaction and non-bulk stamp transactions were removed.
 - f. Please confirm that "Other SS1" listed on page 19 of USPS-LR-L-80 is the same as OSS as defined on p.5 of the same library reference. If not, please explain the differences between the two variables, and provide an Excel spreadsheet that links the values of "Other SS1" to the corresponding value of the variable "bkstid" in wscleanpos.11.3.05.xls.

RESPONSE:

- a. The "Credit" payment type variable was created in EViews and its formula is contained therein. As the name suggests the "Credit" payment type variable is an indicator variable to identify transactions in which a credit card was used. The formula for the "Credit" variable and the tender type definitions are presented in my response to Question 9 above. The tender types include the various types of credit cards (e.g. Mastercard, Visa).

13. This question seeks clarification of the manner in which EViews treats blank cells imported from Excel. The spreadsheet, wscleanpos.11.3.05.xls, tab "Final" in LR-L-80 contains cells with 0s and blank cells. How were blank cells treated by EViews?
- a. Does EViews consider blank cells to be missing values or are blank cells automatically equated with 0s?
 - b. Were blank cells transformed to zero values?

RESPONSE:

- a. EViews converted the blank cells to zeros.
- b. Yes

12. This question seeks clarification of the variables contained in USPS-LR-L-80, wscleanpos.11.3.05.xls. Please confirm whether the variable "length" is identical to the variable "TIME" on p. 4 of USPS-LR-K-80, USPS-LR-L-80 (Bradley).doc. If not, please explain the meaning of "Length" and provide an Excel spreadsheet with the variable "Time" sorted with the corresponding observation for BKSTID.

RESPONSE:

Confirmed.

11. Please provide an Excel spreadsheet with the variable PMRESIDS sorted with the corresponding observation for BKSTID.

RESPONSE:

These data are included in the Eviews worksheet in USPS-LR-L-80. The requested Excel version is being submitted in USPS-LR-L-136, which is entitled "Window-Service Spreadsheets Provided by Witness Bradley in Response to POIR No. 3, Items 7-8, 10-11."

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10. Please provide an Excel spreadsheet of the input data (prior to deletion of any observations) used to produce "First Estimation: Calculating Residuals for Analysis," on page 9, USPS-LR-L-80.

RESPONSE:

These data are included in the Eviews worksheet in USPS-LR-L-80. The requested Excel version is being submitted in USPS-LR-L-136, which is entitled "Window-Service Spreadsheets Provided by Witness Bradley in Response to POIR No. 3, Items 7-8, 10-11."

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Please note that the tender type variables (tenype) are defined in the "Overview" tab in
wscleanpos.11.3.05.xls. For convenience, those definitions are reproduced below:

TenderTypeID	TenderTypeName
0	Non-Revenue Visit
1	Cash
2	Check
3	Debit Card
5	Postal Money Order Redeem
6	Non-Postal Money Order
21	MasterCard
22	AMEX
23	DISCOVER
35	VISA
100	Split Tender
102	Diners
118	Modified Tender

Here are the definitions for the variables used in the formulas:

LOC	Numerical code indicating the post office in which the transaction took place
TENTYPE	The tender type for the transaction.
DC	The number of delivery confirmation items processed in the transaction.
PKUP	The number of pickup items processed in the transaction.
INS49	The number of insurance items for \$50 or less processed in the transaction.
INS50	The number of insurance items for more than \$50 processed in the transaction.
RR	The number of return receipt items processed in the transaction.
SC	The number of signature confirmation items processed in the transaction.
BPM	The number of bound printed matter pieces processed in the transaction.
MM	The number of media mail pieces processed in the transaction.
COM	The number of certificate of mailing items processed in the transaction.
INTL	The number of international mail pieces processed in the transaction.
ISS	The number of international special service items processed in the transaction.
MAILPAY	The number of mailing payments processed in the transaction.
PD	The number of postage due items processed in the transaction.
HOLD	The number of held mail items processed in the transaction.
LIB	The number of library rate pieces processed in the transaction.

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USPS-LR-L-81:

CASH	series	03/15/06 10:36	[History]	Modified: 1 7915 // cash=0 -- Modified: 1 7915 if tentype=1 // cash = 1
CHECK	series	03/15/06 11:15	[History]	Modified: 1 7915 // check = 0 -- Modified: 1 7915 if tentype=2 // check=1
CREDIT	series	03/15/06 12:49	[History]	Modified: 1 7915 // credit = 0 -- Modified: 1 7915 if tentype=21 or tentype = 22 or tentype=23 or tentype=35 or tentype=102=> -- credit = 1
D1	series	03/16/06 13:10	[History]	Modified: 1 7915 // d1=0 -- Modified: 1 7915 if loc=85098 // d1=1
D10	series	03/16/06 13:11	[History]	Modified: 1 7915 // d10=0 -- Modified: 1 7915 if loc = 107799 // d10=1
D11	series	03/16/06 13:11	[History]	Modified: 1 7915 // d11=0 -- Modified: 1 7915 if loc = 127189 // d11=1
D12	series	03/16/06 13:11	[History]	Modified: 1 7915 // d12=0 -- Modified: 1 7915 if loc = 40832 // d12=1
D13	series	03/16/06 13:11	[History]	Modified: 1 7915 // d13=0 -- Modified: 1 7915 if loc = 116806 // d13=1
D14	series	03/16/06 13:12	[History]	Modified: 1 7915 // d14=0 -- Modified: 1 7915 if loc=30422 // d14=1
D15	series	03/16/06 13:12	[History]	Modified: 1 7915 // d15=0 -- Modified: 1 7915 if loc=4079 // d15=1
D16	series	03/16/06 13:25	[History]	Modified: 1 7915 // d16=0 -- Modified: 1 7915 if loc = 120905 // d16=1
D17	series	03/16/06 13:13	[History]	Modified: 1 7915 // d17=0 -- Modified: 1 7915 if loc=118483 // d17=1
D18	series	03/16/06 13:13	[History]	Modified: 1 7915 // d18=0 -- Modified: 1 7915 if loc = 126721 // d18=1
D19	series	03/16/06 13:13	[History]	Modified: 1 7915 // d19=0 -- Modified: 1 7915 if loc = 123775 // d19=1
D2	series	03/16/06 13:11	[History]	Modified: 1 7915 // d2=0 -- Modified: 1 7915 if loc = 98456 // d2=1
D20	series	03/16/06 13:13	[History]	Modified: 1 7915 // d20=0 -- Modified: 1 7915 if loc = 27500 // d20=1
D21	series	03/16/06 13:13	[History]	Modified: 1 7915 // d21=0 -- Modified: 1 7915 if loc = 30283 // d21=1
D22	series	03/16/06 13:13	[History]	Modified: 1 7915 // d22=0 -- Modified: 1 7915 if loc = 70364 // d22=1
D23	series	03/16/06 13:13	[History]	Modified: 1 7915 // d23=0 -- Modified: 1 7915 if loc = 119685 // d23=1
D24	series	03/16/06 13:14	[History]	Modified: 1 7915 // d24=0 -- Modified: 1 7915 if loc = 69225 // d24=1
D25	series	03/16/06 13:14	[History]	Modified: 1 7915 // d25=0 -- Modified: 1 7915 if loc = 128644 // d25=1
D26	series	03/16/06 13:14	[History]	Modified: 1 7915 // d26=0 -- Modified: 1 7915 if loc = 4881 // d26=1
D27	series	03/16/06 13:14	[History]	Modified: 1 7915 // d27=0 -- Modified: 1 7915 if loc = 119973 // d27=1
D3	series	03/16/06 13:11	[History]	Modified: 1 7915 // d3=0 -- Modified: 1 7915 if loc=84745 // d3=1
D4	series	03/16/06 13:11	[History]	Modified: 1 7915 // d4=0 -- Modified: 1 7915 if loc=69759 // d4=1
D5	series	03/16/06 13:11	[History]	Modified: 1 7915 // d5=0 -- Modified: 1 7915 if loc=39717 // d5=1
D6	series	03/16/06 13:12	[History]	Modified: 1 7915 // d6=0 -- Modified: 1 7915 if loc=21799 // d6=1
D7	series	03/16/06 13:12	[History]	Modified: 1 7915 // d7=0 -- Modified: 1 7915 if loc = 20171 // d7=1
D8	series	03/16/06 13:12	[History]	Modified: 1 7915 // d8=0 -- Modified: 1 7915 if loc=2303 // d8=1
D9	series	03/16/06 13:12	[History]	Modified: 1 7915 // d9=0 -- Modified: 1 7915 if loc=36211 // d9=1
DEBIT	series	03/16/06 12:24	[History]	Modified: 1 7915 // debit = 0 -- Modified: 1 7915 if tentype = 3 // debit = 1
INS49	series	01/09/06 12:46	[History]	Modified: 1 7915 // ins49=0
INS50	series	01/09/06 12:47	[History]	Modified: 1 7915 // ins50=0
INTERNATI	series	03/15/06 12:56	[History]	Modified: 1 7915 // internatl=intl+iss
OSS	series	03/15/06 10:13	[History]	Modified: 1 7915 // oss=rr+sc+com+dc+pd
OTHPAY	series	03/15/06 12:59	[History]	Modified: 1 7915 // othpay=0 -- Modified: 1 7915 if tentype=100 or tentype=118 // othpay=1
OWR	series	03/15/06 12:59	[History]	Modified: 1 7915 // owr=bpm+lib+mm
SERVICES	series	03/15/06 13:02	[History]	Modified: 1 7915 // services=pkup+hold+mailpay

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9. USPS-LR-L-80 at page 3 states that "various variables are created using EViews 'GENR' function. Each created value is self documented including the formula used to create it." Please provide a listing and description of each formula for every variable created in EViews and subsequently used in USPS-LR-L-80 and USPS-LR-L-81.

RESPONSE:

The formula for any variable can be obtained by clicking your mouse on the variable in the Eviews workfile. Moreover, the entire set of formulas can be obtained by clicking on the "Details" button in the workfile. The requested formulas are reproduced below:

USPS-LR-L-80:

CASH	series	03/15/06 10 36	[History] Modified: 1 7915 // cash=0 -- Modified: 1 7915 if tentype=1 // cash = 1
CHECK	series	03/15/06 11 15	[History] Modified: 1 7915 // check =0 -- Modified: 1 7915 if tentype=2 // check = 1
CREDIT	series	03/15/06 12 49	[History] Modified: 1 7915 // credit =0 -- Modified: 1 7915 if tentype=21 or tentype =22 or tentype=23 or tentype=35 or tentype=102=> -- credit = 1
D1	series	03/16/06 13 10	[History] Modified: 1 7915 // d1=0 -- Modified: 1 7915 if loc=85098 // d1= 1
D10	series	03/16/06 13 11	[History] Modified: 1 7915 // d10=0 -- Modified: 1 7915 if loc = 107799 // d10= 1
D11	series	03/16/06 13 11	[History] Modified: 1 7915 // d11=0 -- Modified: 1 7915 if loc = 127189 // d11= 1
D12	series	03/16/06 13 11	[History] Modified: 1 7915 // d12=0 -- Modified: 1 7915 if loc = 40832 // d12= 1
D13	series	03/16/06 13 11	[History] Modified: 1 7915 // d13=0 -- Modified: 1 7915 if loc = 116806 // d13= 1
D14	series	03/16/06 13 12	[History] Modified: 1 7915 // d14=0 -- Modified: 1 7915 if loc=30422 // d14= 1
D15	series	03/16/06 13 12	[History] Modified: 1 7915 // d15=0 -- Modified: 1 7915 if loc=4079 // d15= 1
D16	series	03/16/06 13 25	[History] Modified: 1 7915 // d16=0 -- Modified: 1 7915 if loc = 120905 // d16= 1
D17	series	03/16/06 13 13	[History] Modified: 1 7915 // d17=0 -- Modified: 1 7915 if loc= 118483 // d17= 1
D18	series	03/16/06 13 13	[History] Modified: 1 7915 // d18=0 -- Modified: 1 7915 if loc = 126721 // d18= 1
D19	series	03/16/06 13 13	[History] Modified: 1 7915 // d19=0 -- Modified: 1 7915 if loc = 123775 // d19= 1
D2	series	03/16/06 13 11	[History] Modified: 1 7915 // d2=0 -- Modified: 1 7915 if loc = 98456 // d2= 1
D20	series	03/16/06 13 13	[History] Modified: 1 7915 // d20=0 -- Modified: 1 7915 if loc = 27500 // d20= 1
D21	series	03/16/06 13 13	[History] Modified: 1 7915 // d21=0 -- Modified: 1 7915 if loc = 30283 // d21= 1
D22	series	03/16/06 13 13	[History] Modified: 1 7915 // d22=0 -- Modified: 1 7915 if loc = 70364 // d22= 1
D23	series	03/16/06 13 13	[History] Modified: 1 7915 // d23=0 -- Modified: 1 7915 if loc = 119685 // d23= 1
D24	series	03/16/06 13 14	[History] Modified: 1 7915 // d24=0 -- Modified: 1 7915 if loc = 69225 // d24= 1
D25	series	03/16/06 13 14	[History] Modified: 1 7915 // d25=0 -- Modified: 1 7915 if loc = 128644 // d25= 1
D26	series	03/16/06 13 14	[History] Modified: 1 7915 // d26=0 -- Modified: 1 7915 if loc = 4881 // d26= 1
D27	series	03/16/06 13 14	[History] Modified: 1 7915 // d27=0 -- Modified: 1 7915 if loc = 119973 // d27= 1
D3	series	03/16/06 13 11	[History] Modified: 1 7915 // d3=0 -- Modified: 1 7915 if loc=84745 // d3= 1
D4	series	03/16/06 13 11	[History] Modified: 1 7915 // d4=0 -- Modified: 1 7915 if loc=69759 // d4= 1
D5	series	03/16/06 13 11	[History] Modified: 1 7915 // d5=0 -- Modified: 1 7915 if loc=39717 // d5= 1
D6	series	03/16/06 13 12	[History] Modified: 1 7915 // d6=0 -- Modified: 1 7915 if loc=21799 // d6= 1
D7	series	03/16/06 13 12	[History] Modified: 1 7915 // d7=0 -- Modified: 1 7915 if loc = 20171 // d7= 1
D8	series	03/16/06 13 12	[History] Modified: 1 7915 // d8=0 -- Modified: 1 7915 if loc=2303 // d8= 1
D9	series	03/16/06 13 12	[History] Modified: 1 7915 // d9=0 -- Modified: 1 7915 if loc=36211 // d9= 1
DEBIT	series	03/16/06 12 24	[History] Modified: 1 7915 // debit = 0 -- Modified: 1 7915 if tentype = 3 // debit = 1
INTERNATL	series	03/15/06 12 56	[History] Modified: 1 7915 // internatl=intl+iss
OSS	series	03/15/06 10 13	[History] Modified: 1 7915 // oss=rr+sc+com+dc+pd
OTHPAY	series	03/15/06 12 59	[History] Modified: 1 7915 // othpay=0 -- Modified: 1 7915 if tentype=100 or tentype=118 // othpay= 1
OWR	series	03/15/06 12 59	[History] Modified: 1 7915 // owr=bpm+lib+mm
SERVICES	series	03/15/06 13 02	[History] Modified: 1 7915 // services=pkup+hold+mailpay

8. Please provide the file entitled, "Average Product Times.R2006.xls" referred to on page 3 of USPS-LR-L-81.

RESPONSE:

The electronic version of this spreadsheet was inadvertently omitted from the Library Reference. It is being submitted in USPS-LR-L-136, which is entitled "Window-Service Spreadsheets Provided by Witness Bradley in Response to POIR No. 3, Items 7-8, 10-11."

7. Please provide the following files referred to on page 6 of USPS-LR-L-80.
 - a. Calculating.Variabilities.xls, and
 - b. Calculating.Variabilities.addendum.xls.

RESPONSE:

The electronic versions of these spreadsheets were inadvertently omitted from the Library Reference. They are being submitted in USPS-LR-L-136, which is entitled "Window-Service Spreadsheets Provided by Witness Bradley in Response to POIR No. 3, Items 7-8, 10-11."

1 CHAIRMAN OMAS: Is there any additional
2 written cross-examination for Witness Bradley?

3 (No response.)

4 CHAIRMAN OMAS: There being none, this
5 brings us to oral cross-examination.

6 One participant has requested oral cross-
7 examination, the Office of the Consumer Advocate. Mr.
8 Richardson, you may begin.

9 MR. RICHARDSON: Thank you, Mr. Chairman.

10 CROSS-EXAMINATION

11 BY MR. RICHARDSON:

12 Q Good morning, Dr. Bradley.

13 A Good morning.

14 MR. RICHARDSON: Mr. Chairman, two days ago
15 I transmitted to Postal Service counsel some OCA
16 cross-examination exhibits which I would like to
17 distribute and which Dr. Bradley has seen previously,
18 but I'd like to distribute for the Commissioners and
19 anyone interested, if I may.

20 CHAIRMAN OMAS: Without objection.

21 MR. RICHARDSON: Mr. Chairman, I would also
22 like to hand one to the reporter for transcribing into
23 the record.

24 At this point they are listed as OCA Cross-
25 Examination Exhibit No. 1, Revised Exhibit 2, and

1 Revised Exhibit No. 3.

2 CHAIRMAN OMAS: Without objection. So
3 ordered.

4 (The documents referred to
5 were marked for
6 identification as OCA Exhibit
7 Nos. T-17-1 through 3 and
8 were received in evidence.)

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OCA Cross-examination Exhibit No. T-17-1

Below is a SAS version of your recommended model: the output, program and program log. The parameter estimates of the regressors reproduce your model, recognizing that the standard errors and t values are computed differently in your model based on White Heteroscedasticity-Consistent Standard Errors. The results of the SAS version, which obtains regressors identical to those obtained in your EViews version, can apparently be used to reproduce your results.

- (a) However, note the discrepancy between the R squared values in the SAS model and the EViews results.
- (b) Your model prints a Durbin-Watson statistic, even though the data are cross sectional rather than time series.

Output of Recommended Model

The SAS System

The REG Procedure

Model: MODEL1

Dependent Variable: TIME TIME

Number of Observations Read	7896
Number of Observations Used	7896

NOTE: No intercept in model. R-Square is redefined.

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value
Pr > F				
Model	53	174148035	3285812	435.11
<.0001				
Error	7843	59227387	7551.62403	
Uncorrected Total	7896	233375422		

Root MSE	86.90008	R-Square	0.7462
Dependent Mean	120.12386	Adj R-Sq	0.7445
Coeff Var	72.34206		

Parameter Estimates

Parameter	Standard
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2

Variable	Label	DF	Estimate	Error	t Value	Pr > t
CERT	CERT	1	5.50075	3.06756	1.79	0.0730
FC	FC	1	15.50142	0.89374	17.34	<.0001
STMPSCN	STMPSCN	1	3.51428	0.69512	5.06	<.0001
STMPNO	STMPNO	1	0.57943	0.09508	6.09	<.0001
PM	PM	1	28.27652	1.34981	20.95	<.0001
MO	MO	1	36.17514	1.69713	21.32	<.0001
PP	PP	1	41.33933	3.29872	12.53	<.0001
OWR	OWR	1	25.90035	2.49835	10.37	<.0001
EM	EM	1	78.88407	4.18166	18.86	<.0001
PVI	PVI	1	32.10782	6.13836	5.23	<.0001
INS	INS	1	32.13295	3.39766	9.46	<.0001
RP	RP	1	8.96030	3.05895	2.93	0.0034
INTERNATL	INTERNATL	1	66.42995	2.63966	25.17	<.0001
STMPEN	STMPEN	1	0.99652	1.26771	0.79	0.4318
REGINS	REGINS	1	182.39458	15.34240	11.89	<.0001
PASS	PASS	1	523.65322	11.25677	46.52	<.0001
RETAIL	RETAIL	1	51.05149	9.16570	5.57	<.0001
BOX	BOX	1	119.07106	7.76118	15.34	<.0001
DOMCOD	DOMCOD	1	166.51847	29.15851	5.71	<.0001
FCENCL	FCENCL	1	53.59449	87.08449	0.61	0.5383
OSS	OSS	1	7.45635	1.73020	4.31	<.0001
SERVICES	SERVICES	1	41.44992	3.61757	11.46	<.0001
CHECK	CHECK	1	27.60235	4.52183	6.10	<.0001

The SAS System

The REG Procedure

Model: MODEL1

Dependent Variable: TIME TIME

Parameter Estimates

Variable t	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > t
CREDIT <.0001	CREDIT	1	25.64015	3.36795	7.61	
DEBIT 0.0732	DEBIT	1	7.95521	4.43944	1.79	
ITEMS <.0001	ITEMS	1	18.15590	1.55434	11.68	
D1 0.0907	D1	1	14.22320	8.40670	1.69	
D2 0.0230	D2	1	14.58985	6.41792	2.27	
D3 <.0001	D3	1	28.79579	5.81420	4.95	
D4 <.0001	D4	1	25.11806	5.82403	4.31	
D5 <.0001	D5	1	26.72126	4.52858	5.90	
D6 <.0001	D6	1	27.84720	4.89178	5.69	
D7 <.0001	D7	1	28.12343	4.08431	6.89	
D8 <.0001	D8	1	23.97246	6.11758	3.92	
D9 <.0001	D9	1	35.47029	6.17156	5.75	
D10 0.0003	D10	1	39.11318	10.81435	3.62	
D11 <.0001	D11	1	26.36781	5.24230	5.03	
D12 <.0001	D12	1	33.61108	4.57858	7.34	
D13 <.0001	D13	1	43.55333	6.88242	6.33	
D14 <.0001	D14	1	105.06886	6.82331	15.40	
D15 <.0001	D15	1	89.31317	5.28602	16.90	
D16 <.0001	D16	1	81.18344	5.68986	14.27	
D17 <.0001	D17	1	67.58302	5.04792	13.39	
D18 0.0742	D18	1	11.14226	6.23927	1.79	
D19 <.0001	D19	1	51.58101	5.52589	9.33	
D20 <.0001	D20	1	47.02466	7.58348	6.20	
D21 <.0001	D21	1	45.19336	5.43097	8.32	
D22 <.0001	D22	1	67.33755	8.92015	7.55	
D23 <.0001	D23	1	45.30960	5.49073	8.25	

D24	D24	1	52.83833	4.42920	11.93
<.0001					
D25	D25	1	53.35080	4.89599	10.90
<.0001					
D26	D26	1	41.94984	5.10347	8.22
<.0001					
D27	D27	1	45.15755	5.41740	8.34
<.0001					

Recommended Model--Program

```
options linesize=80;
options nocenter;
options nodate;
options nonumber;
```

```
DATA bdata;
set bwindows.poir10db;
run;
```

```
proc sort;
by basketid;
run;
```

```
data studntresid;
set bwindows.studntresid;
run;
```

```
data studntresid (rename = (bsktid = basketid));
set studntresid;
run;
```

```
proc sort;
by basketid;
run;
```

```
data bdata;
merge bdata studntresid;
by basketid;
run;
```

```
data bdata;
set bdata;
if studresid = "." then studresid = 0;
run;
proc sort;
by basketid;
run;
```



```

data walk;
set bwindows.walk;
run;
proc sort;
by basketid;
run;

```

```

data bdata;
merge bdata walk;
by basketid;
run;

```

```

*****Deleting Some Outliers*****;

```

```

data bdata;
set bdata;
If stmpno ge 500 then delete;
If pm ge 100 then delete;
if stmpen ge 500 then delete;
If time ge 2400 then delete;

```

```

run;

```

```

DATA BDATA;
SET BDATA;
If basketid = 5253926578 then delete;
If basketid = 5228548508 then delete;
If basketid = 5204600699 then delete;
If basketid = 5204600585 then delete;
If basketid = 5232851729 then delete;
If basketid = 5232851741 then delete;
If basketid = 5204600396 then delete;
If basketid = 5220160205 then delete;
If basketid = 5230299463 then delete;
If basketid = 5224998539 then delete;

```

```

RUN;

```

```

*****Reproducing witness Bradley's Recommended Model*****;

```

```

proc reg;
model time = cert fc stmpscn stmpno pm mo pp ovr em pvi ins rp
Internatl stmpen regins
pass retail box domcod fcencl oss services check credit debit items
d1 d2 d3 d4 d5 d6 d7 d8 d9 d10 d11 d12 d13 d14 d15 d16 d17 d18
d19 d20 d21 d22 d23 d24 d25 d26 d27/noint ;
run;

```

Program LOG of Recommended Model

NOTE: Copyright (c) 2002-2003 by SAS Institute Inc., Cary, NC, USA.

NOTE: SAS (r) 9.1 (TS1M3)

Licensed to POSTAL RATE COMMISSION, Site 0038843028.

NOTE: This session is executing on the XP_PRO platform.

NOTE: SAS 9.1.3 Service Pack 1

NOTE: SAS initialization used:

real time 2.04 seconds

cpu time 1.34 seconds

```

1
2  options linesize=80;
3  options nocenter;
4  options nodate;
5  options nonumber;
6
7
8  DATA bdata;
9  set bwindows.poir10db;
10 run;

```

NOTE: There were 7915 observations read from the data set
BWINDOWS.POIR10DB.

NOTE: The data set WORK.BDATA has 7915 observations and 58 variables.

NOTE: DATA statement used (Total process time):

real time 1.01 seconds

cpu time 0.03 seconds

```

11
12
13
14
15  proc sort;
16  by basketid;
17  run;

```

NOTE: There were 7915 observations read from the data set WORK.BDATA.

NOTE: The data set WORK.BDATA has 7915 observations and 58 variables.

NOTE: PROCEDURE SORT used (Total process time):

real time 0.25 seconds

cpu time 0.06 seconds

```

18
19  data studntresid;

```

```
20  set bwindows.studntresid;
21  run;
```

NOTE: There were 250 observations read from the data set
BWINDOWS.STUDNTRESID.

NOTE: The data set WORK.STUDNTRESID has 250 observations and 2
variables.

NOTE: DATA statement used (Total process time):
 real time 0.04 seconds
 cpu time 0.01 seconds

```
22
23  data studntresid (rename = (bsktid = basketid));
24  set studntresid;
25  run;
```

NOTE: There were 250 observations read from the data set
WORK.STUDNTRESID.

NOTE: The data set WORK.STUDNTRESID has 250 observations and 2
variables.

NOTE: DATA statement used (Total process time):
 real time 0.03 seconds
 cpu time 0.00 seconds

```
26
27  proc sort;
28  by basketid;
29  run;
```

NOTE: There were 250 observations read from the data set
WORK.STUDNTRESID.

NOTE: The data set WORK.STUDNTRESID has 250 observations and 2
variables.

NOTE: PROCEDURE SORT used (Total process time):
 real time 0.01 seconds
 cpu time 0.01 seconds

```
30
31  data bdata;
32  merge bdata studntresid;
33  by basketid;

34  run;
```

NOTE: There were 7915 observations read from the data set WORK.BDATA.

NOTE: There were 250 observations read from the data set
WORK.STUDNTRESID.

NOTE: The data set WORK.BDATA has 7915 observations and 59 variables.

NOTE: DATA statement used (Total process time):
 real time 0.09 seconds
 cpu time 0.04 seconds

```
35
```

```

36  data bdata;
37  set bdata;
38  if studresid = "." then studresid = 0;
39  run;

```

NOTE: Character values have been converted to numeric
values at the places given by: (Line):(Column).
38:16

NOTE: There were 7915 observations read from the data set WORK.BDATA.

NOTE: The data set WORK.BDATA has 7915 observations and 59 variables.

NOTE: DATA statement used (Total process time):

real time	0.06 seconds
cpu time	0.03 seconds

```

40  proc sort;
41  by basketid;
42  run;

```

NOTE: There were 7915 observations read from the data set WORK.BDATA.

NOTE: The data set WORK.BDATA has 7915 observations and 59 variables.

NOTE: PROCEDURE SORT used (Total process time):

real time	0.04 seconds
cpu time	0.06 seconds

```

43
44  data walk;
45  set bwindows.walk;
46  run;

```

NOTE: There were 7915 observations read from the data set
BWINDOWS.WALK.

NOTE: The data set WORK.WALK has 7915 observations and 5 variables.

NOTE: DATA statement used (Total process time):

real time	0.17 seconds
cpu time	0.03 seconds

```

47  proc sort;
48  by basketid;
49  run;

```

NOTE: There were 7915 observations read from the data set WORK.WALK.

NOTE: The data set WORK.WALK has 7915 observations and 5 variables.

NOTE: PROCEDURE SORT used (Total process time):

real time	0.01 seconds
cpu time	0.01 seconds

```

50
51  data bdata;
52  merge bdata walk;
53  by basketid;
54  run;

```

NOTE: There were 7915 observations read from the data set WORK.BDATA.

NOTE: There were 7915 observations read from the data set WORK.WALK.
 NOTE: The data set WORK.BDATA has 7915 observations and 61 variables.
 NOTE: DATA statement used (Total process time):
 real time 0.04 seconds
 cpu time 0.04 seconds

```
55
56
57
58 *****Deleting Some Outliers*****;
59 data bdata;
60 set bdata;
61 if stmpno ge 500 then delete;
62 if pm ge 100 then delete;
63 if stmpen ge 500 then delete;
64 if time ge 2400 then delete;
65
66 run;
```

NOTE: There were 7915 observations read from the data set WORK.BDATA.
 NOTE: The data set WORK.BDATA has 7906 observations and 61 variables.
 NOTE: DATA statement used (Total process time):
 real time 0.03 seconds
 cpu time 0.03 seconds

```
67
68
69
70
71 DATA BDATA;
72 SET BDATA;
73 If basketid = 5253926578 then delete;
74 If basketid = 5228548508 then delete;
75 If basketid = 5204600699 then delete;
76 If basketid = 5204600585 then delete;
77 If basketid = 5232851729 then delete;
78 If basketid = 5232851741 then delete;
79 If basketid = 5204600396 then delete;
80 If basketid = 5220160205 then delete;
81 If basketid = 5230299463 then delete;
82 If basketid = 5224998539 then delete;
83
84
85 RUN;
```

NOTE: There were 7906 observations read from the data set WORK.BDATA.
 NOTE: The data set WORK.BDATA has 7896 observations and 61 variables.
 NOTE: DATA statement used (Total process time):
 real time 0.04 seconds
 cpu time 0.04 seconds

```
86
87
```

```
88 *****Reproducing witness Bradley's Recommended
Model*****;
89
90
91 proc reg;
92 model time = cert fc stmpsch stmpno pm mo pp ovr em pvi ins rp
Internatl
92 ! stmpen regins
93 pass retail box domcod fcenc1 oss services check credit debit
items
94 d1 d2 d3 d4 d5 d6 d7 d8 d9 d10 d11 d12 d13 d14 d15 d16 d17 d18
95 d19 d20 d21 d22 d23 d24 d25 d26 d27/noint ;
96 run;
```

OCA revised Cross-examination Exhibit No. T17-2

In R2005-1 you presented testimony based on the use of both the unrestricted and restricted quadratic functions in the estimation of City Carrier costs. In other testimony you have advocated the use of flexible function forms, such as the translog function.

An example of the equation estimated and SAS formulas for the computation of elasticities associated with your testimony in R2005-1 is listed below:

Estimation of Restricted Quadratic Model

```
proc reg data =poolr outest=coef2;
model delt= let let2 cf cf2 seq seq2 spr spr2 dp dp2 dens dens2/vif
tol acov;
run;
```

Estimation of Elasticities

```
proc print data=coef2;
data elascal2; merge coef2 regmean (drop=_TYPE_);

pdelt=intercept+let*mlet+let2*mlet*mlet+cf*mcf+cf2*mcf*mcf+seq*mseq+seq
2*mseq*mseq +
spr*mspr+spr2*mspr+dp*mdp+dp2*mdp*mdp+dens*mdens+dens2*mdens*mdens;

elasl=(let*mlet +2*let2*mlet*mlet)/pdelt;
elasf=(cf*mcf +2*cf2*mcf*mcf)/pdelt;
elass=(seq*mseq +2*seq2*mseq*mseq)/pdelt;
*elasc=(cv*mcv +2*cv2*mcv*mcv)/pdelt;
elasp=(spr*mspr +2*spr2*mspr*mspr)/pdelt;
elasd=(dp*mdp +2*dp2*mdp*mdp)/pdelt;
elasdns=(dens*mdens +2*dens2*mdens*mdens)/pdelt;

proc print data=elascal2;
var mdelt pdelt elasl elasf elass elasp elasd elasdns;
```

In lieu of the exogenous independent variables such as “let”, “seq”, and other variables in your Carrier Cost study, in the analysis of Window Costs, it appears that it would be possible to substitute the various exogenous independent variables from the Window analysis—such as “First Class”, “Other Special Services”, etc. in the restricted quadratic, or even the unrestricted quadratic, equation.

Also, in place of the variables “delivery points” and “density” one might use variables such as “items,” “quantity,” and /or variables based on the SISQ, SIMQ, and MI designations.

OCA revised Cross-examination Exhibit No. T17-3

At line 7, page 27 of your testimony, you present your formula for calculating the variabilities for window service products. That is in linear form.

An alternative approach would be the use of a flexible function form with the substitution of the results from a quadratic equation (restricted or unrestricted).

Assume that the flexible function equation is

$$\text{Time} = \beta_1 x_1 + \beta_2 x_2 + \dots + \gamma_1 x_1^2 + \gamma_2 x_2^2 + \dots$$

The above would be run without an intercept and with dummy variables.

Confirm the formula for the computation of volume variability in your testimony at line 7, page 27, if a flexible function form were used, could be modified to

$$\lambda_k = \frac{(\beta_o \rho_k + \beta_k + 2\gamma_k \bar{x}_k) \bar{x}_k}{(\rho_k + \delta_k) \beta_o + \beta_k \bar{x}_k + 2\gamma_k \bar{x}_k^2}$$

where β_o is computed as in your testimony.

1 BY MR. RICHARDSON:

2 Q Dr. Bradley, have you had a chance to review
3 the cross-examination exhibits?

4 A I have.

5 Q I would like to refer you first to OCA
6 Cross-Examination Exhibit No. T-17-1. You have that
7 before you?

8 A I have it.

9 Q Now, in your testimony on page 27 you've
10 included the model which you used to calculate the
11 volume variabilities for window service products. Is
12 that correct?

13 A Did you say on page 27?

14 Q Page 27, I believe, of your testimony.
15 That's at least in my copy.

16 A I don't have it on mine. Page 27 is a
17 heading called Calculating Variability.

18 Q Yes.

19 A That's not the model.

20 Q Okay.

21 A Maybe I misunderstood your question. I
22 thought you said did I include the models that I used.

23 Q Yes, I did.

24 A The model is on page 26. That's the
25 econometric model on page 26. Are you trying to say

1 the formula?

2 Q Okay. The formula.

3 A On page 26 is the model, and on page 27
4 would be the formula for calculating variability.

5 Q I have a chart on page 26 of mine.

6 A Correct.

7 Q With Table 2.

8 A If you look at the Gross Net chart, they
9 represent the variables in the model.

10 Q Yes.

11 A This is the econometric model.

12 Q Okay.

13 A In fact, it's used to calculate the numbers
14 that were plugged into the formula on page 27.

15 Q Okay. I stand corrected. Yes. I want to
16 focus on that formula a little later.

17 Now, your estimations were based on the
18 EViews computer program. Is that correct?

19 A Correct.

20 Q And that program appears in your Library
21 Reference K-80, I believe?

22 A Correct. Well, the output of the program.

23 Q The output. Now, in our Cross-Examination
24 Exhibit No. 1 we've included a SAS version of your
25 recommended model. Is that correct?

1 A Correct.

2 Q And for your convenience we include the
3 output, the program and the program log and several
4 pages there.

5 A Uh-huh.

6 Q The parameter estimates of the regressors
7 reproduce your model, it's our understanding. If you
8 look at pages 2, 3 and 4, the column headed Estimates
9 reproduces the regressors that you've produced with
10 your EViews model. Is that correct?

11 A Correct.

12 Q The other two columns, Error and T Value,
13 may not be identical. Is that correct?

14 A Correct.

15 Q But that is not significant. The important
16 point is that the estimators match your output?

17 A Correct. The standard T values are actually
18 done by two different methods. You used SAS. We used
19 what they call -- to correct it. These are not, so
20 they wouldn't match, but the fact that the point
21 estimates are identical would indicate replication.

22 Q Now, however, even though they are
23 identical, I'd refer you to R^2 estimate on the bottom
24 of the first page. For the SAS output model, R^2 is
25 0.7462. Do you see that?

1 A I do.

2 Q And that is different from the R^2 in your
3 Library Reference K-80 at page 8 --

4 A Correct.

5 Q -- which showed an R^2 of 0.504117. I have a
6 copy of your library reference page here with me if
7 you want to verify that.

8 A I took a look at it.

9 Q Okay. Now how would you explain that
10 discrepancy in these R^2 values?

11 A If you would look at the first page of this
12 cross-examination exhibit, and if you go down about
13 halfway down the middle of the page underneath the
14 bold heading, you'll see that there is N-O-T-E written
15 in caps.

16 Q Yes.

17 A It says, "Note: No intercept in the model.
18 R^2 is redefined."

19 Okay? What that note is indicating is that
20 when you run SAS with no intercept option, SAS uses an
21 alternative formula for calculating the R^2 and so
22 again the two numbers should be different because
23 they're based upon different formulas. They're not
24 inconsistent.

25 If you'd like I could explain to you the

1 difference in the formulas, but you may not be
2 interested.

3 Q Okay. There's no need right now.

4 A Okay.

5 Q Thank you. I have another question with
6 respect to this.

7 Your model prints a Durbin-Watson statistic
8 even though the data are cross-sectional rather than
9 time series, and we pointed that out on the first page
10 of this cross-examination exhibit. Could you explain
11 that?

12 A Yes. He used what's known as a standard
13 econometric package. And econometric packages have
14 evolved so that you don't necessarily have to write
15 line-by-line codes. You can actually make it
16 interactive. So you put in the model and then press a
17 button. Then it does the calculations and gives you
18 the results. That's an advantage.

19 One of the disadvantages of the interactive
20 model is that it does a standard set of algorithms and
21 calculations for every regression that we do. So it's
22 quite possible to calculate a Durbin-Watson statistic
23 using the side-by-side observation, except it's not
24 what we use. So it's just an output of any model that
25 you might use.

1 Q Thank you. Now I'd like to ask you a series
2 of questions about our Cross-Examination Revised
3 Exhibit No. 2. Do you have that in front of you?

4 A I do.

5 Q Okay. In your previous testimony before
6 this Commission you've advocated the use of a flexible
7 function form such as quadratic and translog
8 functions. Is that correct?

9 A I have in certain testimonies, yes.

10 Q For instance, in R2005-1 you testified on
11 city carrier costs, and you used both the unrestricted
12 and restricted quadratic functions, correct?

13 A Correct.

14 Q And you've also used the flexible functional
15 form such as translog function?

16 A I have.

17 Q And on this cross-examination exhibit we
18 have reproduced a sample or example or some of your
19 testimony from R2005-1 using SAS formulas, and that
20 appears in the program in the middle of that page
21 under Estimation of Restricted Quadratic Model. Do
22 you agree?

23 A Yes.

24 Q As we indicated there, in lieu of the
25 exogenous independent variables such as "let" and

1 "seq" and other variables in your carrier cost study,
2 in the analysis of window costs it looks like it would
3 be possible to substitute the various exogenous
4 independent variables from the window analysis such as
5 first class and other special services, et cetera, in
6 the restricted quadratic or even the unrestricted
7 quadratic equation. Would you comment on that?

8 A Sure. As a general matter, I think that
9 this type of formulation could be used to calculate
10 elasticities associated with a quadratic version of a
11 over-the-surface transaction line model.

12 Of course, one can never preapprove a model
13 until one actually sees it and knows what the
14 variables are and exactly how it would work, but as a
15 general algorithm, this is designed to calculate
16 elasticities associated with a quadratic model.

17 Q And just so the record is clear, in this
18 case, you've used a linear functional form as opposed
19 to a quadratic functional form?

20 A Correct.

21 CHAIRMAN OMAS: Excuse me. If I can
22 interrupt?

23 Mr. Bradley, would you bring your mic
24 slightly closer? The people on the web can't hear
25 you. We can hear you very well in here, but that

1 would help.

2 THE WITNESS: It may be the first time in my
3 life I've been ever too quiet, so I appreciate that.
4 Thank you.

5 CHAIRMAN OMAS: Yes. As I said, we can hear
6 you in here. They can't hear you on the web.

7 THE WITNESS: Is that better?

8 CHAIRMAN OMAS: Our technical people? I
9 think, yes.

10 THE WITNESS: Thank you.

11 CHAIRMAN OMAS: Thank you, Mr. Bradley.

12 BY MR. RICHARDSON:

13 Q My question to you is given your previous
14 use of the restricted quadratic equation and potential
15 estimation procedures used in R2005-1 --

16 CHAIRMAN OMAS: Excuse me, Mr. Richardson.
17 Is your mic on?

18 THE WITNESS: Now it is. I was being loud.
19 I knew something wasn't right.

20 CHAIRMAN OMAS: Mr. Richardson, you may
21 proceed.

22 MR. RICHARDSON: I'll reask the question.

23 BY MR. RICHARDSON:

24 Q Given your previous use of the restricted
25 quadratic equation and potential estimation procedures

1 used in R2005-1 and other times, would you explain why
2 you did not use that approach in estimating window
3 service variabilities in this case and rather used a
4 linear function?

5 A Certainly. There was actually a number of
6 reasons that I chose to do a linear function. First,
7 the primary focus of this analysis was to update the
8 established model, so the first and foremost reason to
9 do it would be to replicate and update what has
10 already been the accepted way of doing this type of
11 analysis.

12 Secondly, this is only one piece of the
13 window service costing structure. There's a variety
14 of pieces that go into it. This isn't the whole
15 thing. That structure itself is consistent with
16 additive separability, which is a characteristic of
17 this linear function, so one of the primary reasons to
18 do a linear function is that it provides variabilities
19 which are consistent with the entire structure of the
20 window service costing model.

21 Thirdly, I think that if we think about the
22 nature of window service transactions there is some
23 appeal to the idea that for the major types of
24 transactions like say a weigh-in rate where you bring
25 a parcel in and it's put on the scale that certainly

1 there's time savings if I have two or three parcels
2 within that whole transaction.

3 But once I actually get to the physical
4 characteristics of putting the parcel on the scale,
5 putting in the information, da-da-da-da, you know,
6 that part of the transaction, which is what these
7 coefficients measure, it's a reasonable view that that
8 tends to be a linear function. It's proportionate.
9 If I do three of that activity it takes three times as
10 much if I did one of those activities.

11 For those three reasons I chose to use the
12 linear function.

13 Q Would it be correct to use the restricted or
14 unrestricted quadratic function for window service
15 costs?

16 A Excuse me?

17 Q Well, you used a linear function.

18 A Yes.

19 Q Would you say it would be incorrect to use
20 the restricted or unrestricted quadratic function for
21 window service costs?

22 A I think there would be serious issues and
23 difficulties associated with trying to plug the
24 quadratic into the window service costing model.

25 I think one would really need to go back and

1 rethink the structure of the entire costing model
2 before one just plugged it in there.

3 Q Which part of the structure are you
4 referring to when you say there's another part of the
5 structure that may be difficult to plug into?

6 A Okay. Well, the window service costing
7 starts with IOCS identifying product specific times,
8 so we actually get accrued times for individual
9 products like first class or parcel post or whatever.
10 That is what we in Postal parlance call the
11 accrued costs sort of, and then that's divided by the
12 products. Then there's a series of variabilities
13 which are applied to that IOCS costing structure.

14 By its very construction, that IOCS exercise
15 implicitly suggests that there's additive separability
16 amongst those products, and that would be the primary
17 thing I think one would be concerned about in
18 estimating quadratic equation here.

19 Q Thank you, Dr. Bradley. I would like to
20 turn to the next cross-examination exhibit, Revised
21 Cross-Examination Exhibit T-17-3.

22 A I have it.

23 Q Do you have that in front of you?

24 A Uh-huh.

25 Q Again referring to your testimony at page 27

1 where you have the formula as you've corrected me --

2 A Sorry.

3 Q -- that's in a linear form. Now, on this
4 cross-examination exhibit we've proposed or listed an
5 alternative flexible function form with the
6 substitution of the results from a quadratic equation,
7 and that's listed here as time equals the formula.

8 A Uh-huh.

9 Q Do you see that?

10 A I do.

11 Q And as indicated, it would be run without an
12 intercept and with dummy variables.

13 A Uh-huh.

14 Q Now, we have then modified this flexible
15 function equation to the equation at the bottom of the
16 exhibit.

17 My question to you is would you confirm that
18 the formula for the computation of variability could
19 be modified to this particular form where Beta_0 is
20 computed as in your testimony?

21 A This formula is not correct. Certainly one
22 can modify it, but I would suggest that the
23 modification is not correct.

24 Q Could you explain that?

25 A Well, again -- sorry?

1 Q If you need to you could provide it in
2 writing.

3 A I can certainly explain.

4 Q Okay. That's fine.

5 A No problem. If we go back to what we were
6 talking a little bit before, that the fact that this
7 formula on page 27 was derived from a linear model
8 based upon the assumed additive separability, that's
9 what gives us the ability to derive that Greek lambda
10 product specific variability.

11 If I now start thinking about a quadratic
12 formulation that has some nonlinear aspects to it I
13 need to go back and derive from that same original
14 model structure that formula. That will not give you
15 the same thing one would get if one simply plugs in
16 the derivative from your time equation into the linear
17 formula.

18 Q Okay. Thank you, Dr. Bradley.

19 A You're welcome.

20 Q I have one more question -- a few other
21 questions really -- relating to your assumption in
22 your study where you assume a 100 percent volume
23 variability for certain special services.

24 Is that correct that you do that for
25 certified mail, insurance, COD and registered mail

1 services?

2 A It's an assumption in the sense that we're
3 using a linear structure. In other words, if you have
4 a linear model and no intercept -- mathematically if
5 you have a linear model with no intercept -- then
6 mathematically you get a 100 percent variability from
7 that.

8 The assumption really comes from the fact
9 that for those special services they're never sold by
10 themselves. They're always sold with another product
11 and so they have no transaction core related time.
12 All they have is the time associated with themselves
13 in the transaction, and that's why you get the 100
14 percent.

15 It's not as if we didn't consider the
16 structure of the model and just assumed they were 100
17 percent without looking at them. The assumption is
18 really the structure of the model, and from that flows
19 the 100 percent result.

20 Q You assume that their variability is based
21 on the volume variability of the items of the products
22 which they're sold with?

23 A No, sir.

24 Q You don't?

25 A No, sir.

1 Q Why don't you do that?

2 A Because they are additional products in
3 themselves and deserve their own variability.

4 Q Well, if they're sold in conjunction with
5 first class, say a certified letter sold with first
6 class --

7 A Sure.

8 Q -- doesn't that vary in accordance with the
9 amount of first class mail sold, the volume?

10 A Okay. I got it. Good question. The
11 variability of first class really depends on how
12 quickly additional time is generated as first class
13 comes to the window, and that would be based upon a
14 variety of its own factors.

15 First class, as you know, is sold with
16 certified and without. The variability of certified
17 measures how quickly does the additional time from
18 adding certified to first class or parcel post or
19 whatever I want to add it to increases with additional
20 certified transactions at the window.

21 I think you'd really want to separate the
22 two because they have different costs and
23 characteristics. I think you would want to look at
24 how certified's own time increases in percentage terms
25 with volume.

1 MR. RICHARDSON: Thank you, Dr. Bradley.

2 Those are all the questions I have, Mr.

3 Chairman.

4 CHAIRMAN OMAS: Thank you, Mr. Richardson.

5 Are there any questions from the bench?

6 Commissioner Goldway?

7 COMMISSIONER GOLDWAY: You indicated that
8 you used the IOCS as a basis for dividing the basic
9 times for all of these different activities.

10 THE WITNESS: To make the record clear, the
11 Postal Service does. I actually don't do the --

12 COMMISSIONER GOLDWAY: Did you look at the
13 window service study that was the subject of a
14 previous witness, Updated Window Service Transaction
15 Variabilities?

16 THE WITNESS: I used data from Witness
17 Nieto's study in my analysis.

18 COMMISSIONER GOLDWAY: In addition to the
19 IOCS?

20 THE WITNESS: Again, I actually did not use
21 the IOCS. If I could take a second maybe to explain
22 the structure it would be helpful.

23 The IOCS is done by whoever the IOCS witness
24 is, and that flows to the base year witness in terms
25 of the cost pools.

1 Witness Nieto did the study you referred to.
2 I calculated the variabilities, and I flowed them to
3 the base year witness, who then put the IOCS together
4 with those variabilities to get the product costs that
5 flow forward into the --

6 COMMISSIONER GOLDWAY: I'm just wondering if
7 you took a look at the way the costs broke down with
8 the IOCS or the time allocated to the IOCS --

9 THE WITNESS: That was not my role.

10 COMMISSIONER GOLDWAY: -- and the way the
11 time broke down in the window service study to see if
12 they were similar or different or whether we're
13 getting anomalous information from one study or
14 another?

15 THE WITNESS: Right. Well, I would suggest
16 that the IOCS takes -- I don't know, but it takes
17 millions of observations. This study only took a few
18 thousand.

19 COMMISSIONER GOLDWAY: Right.

20 THE WITNESS: One could compare them, but I
21 think one would just default to the IOCS because it's
22 much larger, more comprehensive.

23 The point of this study was really not to
24 get those times. It was to get transactions, people
25 buying stuff, and the time with those transactions.

1 IOCS looks at what that clerk does and says
2 they're waiting, they're filling their bins or
3 whatever. That really wasn't the goal of this study.
4 This was really to come up with just an analysis of
5 that transaction.

6 COMMISSIONER GOLDWAY: But you have the
7 products here listed with their variabilities.

8 THE WITNESS: Correct.

9 COMMISSIONER GOLDWAY: So you have to use
10 the window service study, don't you, to match the IOCS
11 with that?

12 THE WITNESS: I did use the study, but I
13 guess I'd like to distinguish between -- let's think
14 about the clerks, an hour of clerk time.

15 COMMISSIONER GOLDWAY: Yes.

16 THE WITNESS: She may be serving a customer,
17 waiting for a customer, going back to get a parcel.
18 What my study was just looked at the pieces of that
19 when she's serving the customer. That's all that this
20 does. It didn't look at all of her activities. IOCS
21 is really much broader than what this particular piece
22 does.

23 Now, why is this piece worthy of looking at
24 by itself? Well, as you point out, that's where these
25 individual classes pick up their costs, which is

1 important for rate making.

2 What I was really tasked to look at was the
3 part where I'm serving that customer or she's serving
4 the customer as they come to the window.

5 I don't think I explained it well enough.

6 COMMISSIONER GOLDWAY: No, no. I think what
7 you're saying is you took just a small portion of the
8 IOCS measurement, which is the time that the clerk is
9 at the window, and then the window service study
10 divides that time into products.

11 THE WITNESS: Almost.

12 COMMISSIONER GOLDWAY: I thought the IOCS
13 also indicates that they might be working on a package
14 or they might be working on a stamp so that you could
15 look at what the IOCS measures and say, you know, this
16 study confirms it or shows real differences.

17 THE WITNESS: You could. You're right. No,
18 no. I'm sorry. I mis-spoke. I'm sorry if I misled
19 you.

20 You certainly could look at that transaction
21 portion, just the transaction portion, and say here's
22 IOCS' proportions and here's this study's proportions,
23 but here's the difficulty with that. I think you
24 referred to it earlier.

25 When you get to a transaction where there

1 are several things being purchased -- a letter, some
2 stamps and a Priority Mail -- then it becomes
3 difficult for this type of study to split that into
4 the same way that IOCS does.

5 What this study does is it figures out the
6 causality between those products and the IOCS cost, so
7 what we've done is what the Commission has done over
8 the years. It's the cost tracking. We go here's the
9 first class product, and here's how it causes that
10 IOCS cost to arise. Really what we're doing is
11 measuring that variability between the IOCS costs and
12 the transactional volumes that are involved.

13 You're right. You could do some sort of
14 analysis with this study and say let me try and come
15 up with cost pools for these products that replicate
16 IOCS, but I would suggest it's a small study. It's,
17 like I say, a few thousand versus a million.

18 COMMISSIONER GOLDWAY: Well, that's one of
19 the reasons I wanted to see whether it parallels or
20 shows that you might be able to indicate that one form
21 of measurement or another has flaws if it isn't
22 capturing costs correctly.

23 THE WITNESS: You could. I mean, I would
24 suggest that on a broad scale they're very similar.
25 This shows a lot of stamp transactions. IOCS shows a

1 lot of stamp transactions.

2 In other words, the patterns are all the
3 same, and I think you certainly do have a
4 correspondence there. It's when you get down to the
5 precision of the statistical estimates that I would
6 draw the distinction.

7 COMMISSIONER GOLDWAY: OCA was asking you
8 about the volume variability on certain transactions
9 where you thought they were 100 percent.

10 It would seem to me the window study, for
11 instance, should be able to tell you if somebody comes
12 up and they have three letters, all three of them are
13 going certified mail.

14 THE WITNESS: Right.

15 COMMISSIONER GOLDWAY: The time it takes to
16 handle the certification process for each one of those
17 letters is actually less than if one person comes up
18 for a certified letter and another person comes up
19 because you've got all the forms together. You have
20 the process. The POS One bill comes out all at the
21 same time.

22 Does the window study perhaps challenge your
23 assumption about 100 percent, or would you need lots
24 more transactions from a window service study to give
25 you information that would challenge your figures?

1 THE WITNESS: That's a good question. I
2 think it's certainly true that in general it's a lot
3 cheaper to do three of any items in one transaction
4 than it is in three separate, and these results are
5 consistent with that.

6 The reason it's simpler is that up front
7 time. The help me with these forms and all that kind
8 of stuff takes place whether I'm doing two certified
9 or first class or three.

10 When we talk about the variability, we're
11 now just talking about the additional time that's
12 added onto that transaction by adding yet another
13 certified, and that's where the 100 percent comes in
14 -- five percent more certified, five percent more
15 time -- for that small portion of it, not for the
16 whole transaction.

17 I agree with you that the time per is going
18 to go down, but it's just what we call the marginal or
19 the additional time that tends to be pretty much the
20 same if we add additional certified.

21 The other reality is that when you look at
22 the data there just aren't that many instances where
23 somebody comes in and does eight certified. You
24 know, they're onesies and twosies mostly, and perhaps
25 the results are reflecting that too.

1 COMMISSIONER GOLDWAY: Okay. All right.

2 Thank you.

3 THE WITNESS: You're welcome.

4 CHAIRMAN OMAS: Are there any additional
5 questions or cross-examination for Witness Bradley?

6 (No response.)

7 CHAIRMAN OMAS: Ms. Portonovo, would you
8 like time with your witness?

9 MS. PORTONOVO: Yes. Five minutes, please.

10 CHAIRMAN OMAS: Good. Thank you.

11 (Whereupon, a short recess was taken.)

12 CHAIRMAN OMAS: Ms. Portonovo?

13 MS. PORTONOVO: The Postal Service has no
14 redirect.

15 CHAIRMAN OMAS: Okay. Dr. Bradley, that
16 completes your testimony here today. We appreciate
17 your appearance and your contribution to our record,
18 and we thank you very much. You are now excused.

19 THE WITNESS: Thank you.

20 (Witness excused.)

21 CHAIRMAN OMAS: Ms. McKenzie? Ms. McKenzie,
22 would you please introduce your witness?

23 MS. MCKENZIE: The witness is Virginia J.
24 Mayes.

25 CHAIRMAN OMAS: Ms. Mayes, would you raise

1 your right hand?

2 Whereupon,

3 VIRGINIA J. MAYES

4 having been duly sworn, was called as a
5 witness and was examined and testified as follows:

6 CHAIRMAN OMAS: Please be seated.

7 (The document referred to was
8 marked for identification as
9 Exhibit No. USPS-T-25.)

10 DIRECT EXAMINATION

11 BY MS. MCKENZIE:

12 Q Ms. Mayes, you are being handed two copies
13 of the Direct Testimony of Virginia J. Mayes on Behalf
14 of the United States Postal Service, USPS-T-25. Was
15 this prepared under your direction?

16 A Yes, it was.

17 CHAIRMAN OMAS: Is your mic on?

18 THE WITNESS: Yes.

19 BY MS. MCKENZIE:

20 Q Do you have any changes to the testimony?

21 A Yes, I do. On the last two pages we changed
22 some numbers in the tables.

23 When we put the revised date at the top of
24 the pages -- this would be pages 18 and 19 -- we put
25 2005 instead of 2006. I've changed it to 2006.

1 Q Thank you. You have three library
2 references associated with your testimony, do you not?

3 A Yes, I do.

4 Q And I believe they are USPS-LR-L-88,
5 USPS-LR-L-89 and USPS-LR-L-90. Is that correct?

6 A That's correct.

7 Q If you were to testify today would your
8 testimony be the same as what is written in this
9 document?

10 A Yes, it would.

11 MS. MCKENZIE: At this point, Your Honor, I
12 would like to move into evidence the direct testimony
13 of Virginia J. Mayes on behalf of the United States
14 Postal Service, USPS-T-25, and the three library
15 references associated with her testimony.

16 CHAIRMAN OMAS: Is there an objection?

17 (No response.)

18 CHAIRMAN OMAS: Hearing none, I will direct
19 counsel to provide the reporter with two copies of the
20 corrected direct testimony of Virginia J. Mayes.

21 That testimony is received into evidence.
22 However, as is our practice, it will not be
23 transcribed.

24 //

25 //

1 (The document referred to,
2 previously identified as
3 Exhibit No. USPS-T-25, was
4 received in evidence.)

5 CHAIRMAN OMAS: Ms. Mayes, have you had the
6 opportunity to examine the packet of written cross-
7 examination provided to you this morning?

8 THE WITNESS: Yes, I have.

9 CHAIRMAN OMAS: If those questions contained
10 in the packet were asked of you orally today, would
11 your answers be the same as those you previously
12 provided?

13 THE WITNESS: Yes, they would with one
14 exception. On UPS/USPS-T-25-9, the response to part D
15 on the second page, on the fourth line I did have a
16 number of 287.2 million cubic feet, and in accordance
17 with some revisions made to my library references last
18 week that number becomes 283.2 million.

19 I have changed both copies of the written
20 designation.

21 CHAIRMAN OMAS: Are there any additional
22 corrections or additions you'd like to make at this
23 time?

24 THE WITNESS: No, sir.

25 CHAIRMAN OMAS: Okay. Counsel, would you

1 please provide two copies of the corrected designated
2 written cross-examination of Witness Mayes to the
3 reporter?

4 That material is received into evidence, and
5 it is to be transcribed into the record.

6 (The document referred to was
7 marked for identification as
8 Exhibit No. USPS-T-25 and was
9 received in evidence.)

10 //

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

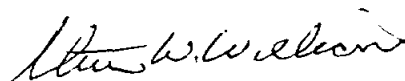
Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS VIRGINIA J. MAYES
(USPS-T-25)

<u>Party</u>	<u>Interrogatories</u>
Alliance of Nonprofit Mailers	MPA/USPS-T25-1, 2a, 3
Magazine Publishers of America	MPA/USPS-T25-1, 2a, 3
Postal Rate Commission	MPA/USPS-T25-1, 2a, 3 MPA/USPS-T27-1e-f, j redirected to T25 PRC/USPS-POIR No.4 - Q21 redirected to T25 UPS/USPS-T25-5-6, 8-10

Respectfully submitted,


Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS VIRGINIA J. MAYES (T-25)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

Designating Parties

MPA/USPS-T25-1

ANM, MPA, PRC

MPA/USPS-T25-2a

ANM, MPA, PRC

MPA/USPS-T25-3

ANM, MPA, PRC

MPA/USPS-T27-1e redirected to T25

PRC

MPA/USPS-T27-1f redirected to T25

PRC

MPA/USPS-T27-1j redirected to T25

PRC

PRC/USPS-POIR No.4 - Q21 redirected to T25

PRC

UPS/USPS-T25-5

PRC

UPS/USPS-T25-6

PRC

UPS/USPS-T25-8

PRC

UPS/USPS-T25-9

PRC

UPS/USPS-T25-10

PRC

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO
INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

MPA/USPS-T25-1. This question refers to USPS-LR-L-88, Appendix F, Tables 3 and 4.

(a) Please confirm that, according to Table 3, crossdocking sacked Periodicals through one SCF costs the Postal Service an average of 1.57 cents per piece. (Note that this is the weighted average of the unit cost figures in I25 and I26). If you do not confirm fully, please provide the correct figure and all of your underlying calculations.

(b) Please confirm that, according to Table 3, crossdocking palletized Periodicals through one SCF costs the Postal Service an average of 0.93 cents per piece. If you do not confirm fully, please provide the correct figure and all of your underlying calculations.

(c) Please confirm that, according to Table 4, crossdocking sacked Periodicals through one BMC costs the Postal Service an average of 1.75 cents per piece. (Note that this is the sum of the figures in cells I26 through I30 with E26 set equal to 100%.) If you do not confirm fully, please provide the correct figure and all of your underlying calculations.

(d) Please confirm that, according to Table 4, crossdocking palletized Periodicals through one BMC costs the Postal Service an average of 1.00 cents per piece. (Note that this figure is shown in cell I31 with cell E31 set to 100%.) If you do not confirm fully, please provide the correct figure and all of your underlying calculations.

(e) Please confirm that the table below accurately summarizes the average per-piece crossdocking costs for palletized and sacked Periodicals that are crossdocked at the specified number of facilities. If you do not confirm fully, please provide the correct figure and all of your underlying calculations.

# of Non-Destination Facilities		Per-Piece Crossdocking Costs (in Cents)		
BMCs	SCFs	Sacked	Palletized	Difference
0	1	1.57	0.93	0.64
1	0	1.75	1.00	0.75
1	1	3.32	1.93	1.39
2	1	5.07	2.93	2.14
2	2	6.64	3.86	2.78

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO
INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

(f) Please confirm that, according to Table 3, crossdocking a Periodicals sack through one SCF costs the Postal Service an average of 71 cents (1.57 cents per piece times 45.11 pieces per sack). If you do not confirm fully, please provide the correct figure and all of your underlying calculations.

(g) Please confirm that, according to Table 4, crossdocking a Periodicals sack through one SCF costs the Postal Service an average of 79 cents (1.75 cents per piece times 45.11 pieces per sack). If you do not confirm fully, please provide the correct figure and all of your underlying calculations.

Response:

The figures provided in the interrogatory represent rounded numbers when compared to the figures developed in Appendix F of USPS-LR-L-88. I confirm that the correct figures round to the numbers provided in the interrogatory.

- a. Confirmed
- b. Confirmed
- c. Confirmed, although both G26 and G30 must be set to 100%.
- d. Confirmed, when G31 is set to 100%.
- e. The figures in the table are confirmed to the degree that they are rounded to two digits after the decimal. When the figures in Appendix F are used directly, the final three numbers in the "Palletized" column are 1.92, 2.92, and 3.85, respectively, and the last two figures in the "Difference" column are 2.15 and 2.79, respectively.
- f. Confirmed
- g. Confirmed

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO
INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.

MPA/USPS-T25-2. Please refer to page 7 of your testimony, where you discuss "Assumptions Used in Periodicals Destination Entry Models" and USPS-LR-L-88, Appendix F, Table 6.

(a) Please confirm the DSCF nontransportation cost avoidance of \$.0136 per piece is calculated assuming that DSCF entry avoids handlings at 1.194 facilities. If you do not confirm fully, please provide the correct figure and all of your underlying calculations.

(b) On average, through how many facilities is a Periodicals container that fails to qualify for destination entry rates crossdocked? Please explain your response fully, and provide citations to the underlying data in sufficient detail to replicate your response.

Response:

a. The DSCF cost avoidance is calculated assuming that DSCF entry avoids one BMC equivalent handling and 0.194 SCF equivalent handlings.

b. Redirected to the Postal Service.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO
INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA, INC.

MPA/USPS-T25-3. Please refer to your response to MPA/USPS-T25-2(a), where you state: "The DSCF cost avoidance is calculated assuming that DSCF entry avoids one BMC equivalent handling and 0.194 SCF equivalent handlings." Please also refer to Table 1 of the response to MPA/USPS-T28-1, which shows the number of containers by container type, container presort level, and entry facility type. Is 1.194 the difference in the average number of container handlings between Periodicals entered at the DSCF and the same containers if entered at the DBMC (as the term "DBMC" is used in Table 1 of the response to MPA/USPS-T28-1)? If not, please provide your best estimate of the difference in the average number of container handlings between Periodicals entered at the DSCF and the same containers if entered at the DBMC, based on assumptions consistent with those used to estimate the Periodicals nontransportation destination entry cost avoidance in USPS-LR-L-88.

RESPONSE:

The 1.194 represents the number of facilities avoided relative to an average non-destination dropshipped Zone 1 & 2 mailing. Relative to the non-dropshipped Zone 1&2 mailing, the DSCF mailing avoids a transfer hub handling and 20% of the time the mailing would avoid a DADC handling. This 20% is adjusted for the assumption that 3.14% of the mailings go straight from the transfer hub to the DDU, avoiding the DADC altogether. But, if "DBMC" is substituted for "transfer hub", the same number of facilities would be avoided by DSCF relative to DBMC.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.,
REDIRECTED FROM WITNESS TALMO

MPA/USPS-T27-1. Please refer to USPS-LR-L-49 at 19-20; USPS-LR-L-85, Table 1; Table 3 of your testimony (USPS-T-27); and your testimony to page 7, line 17, through page 8, line 1, where you state:

Table 3 demonstrates that Periodicals flat-shaped mail presented by mailers in sacks is more costly to process than mail presented on pallets. The per-piece cost difference is due to differences in productivities for platform and other allied operations associated with unloading mail and moving mail to bundle sort operations at the 'destination' facility. The destination facility refers to the facility at which a pallet or sack is dumped or opened and the bundles or pieces therein are handled separately.

Please also refer to witness McCrery's response to Presiding Officer's Information Request No. 4, Question 6, in Docket No. R2005-1, which stated:

It should be noted that the [Skin Sack Cost Reduction] estimate is conservative since it reflects only savings at the destination facilities. However, it would be expected that further workhour reductions will be realized at origin facilities with fewer origin sack handlings and through a reduction in the overall network sack sorting workload for Periodicals.

Finally, please refer to lines 16 through 18 on page 6 of USPS-T-25, which states "Periodicals that are entered by mailers at origin SCFs or intermediate facilities upstream from the destination SCF must undergo mail processing operations of a bulk transfer type, such as crossdocking, at the non-destination facilities."

...

(e) Please confirm that the average cost (per piece of mail) of handling sacks at destination facilities is higher than the average cost of handling pallets at non-destination facilities. If not confirmed, please explain fully, and produce all data and analyses underlying your response.

(f) Please confirm that the actual per-piece cost difference between sacks and pallets entered at the same "non-destination" facility will be higher than the per-piece cost difference estimated in USPS-LR-L-85. If not confirmed, please explain fully, and produce all data and analyses underlying your response.

...

(j) Does the Postal Service have any other estimates of the unit costs of handling containers of Periodicals Outside County mail, or other kinds of mail? If so, please provide the estimates and their source.

RESPONSE:

(e) Confirmed.

(f) Confirmed.

...

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA, INC.,
REDIRECTED FROM WITNESS TALMO

- (j) To the best of my knowledge, other than material filed in this and previous cases before the Postal Rate Commission, no additional studies from which such estimates could be developed have been completed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO
INTERROGATORY OF UNITED PARCEL SERVICE

UPS/USPS-T25-1. Refer to library reference USPS-LR-L-89, page 9.

- (a) Confirm that Intra-BMC parcels are assumed to incur 1.95 legs of local transportation. If not confirmed, explain in detail.
- (b) Confirm that Inter-BMC parcels are assumed to incur 1.85 legs of local transportation. If not confirmed, explain in detail.
- (c) Confirm that "local transportation" represents transportation from the origin AO to the origin SCF and from the destination SCF to the destination DU. If not confirmed, explain in detail.

Response:

- (a) Confirmed
- (b) Confirmed
- (c) As I described "local" costs in my testimony at page 10, lines 22 through 25:

Local: Costs associated with the transportation of parcels between facilities that are within the service area of a Processing and Distribution Center (P&DC), primarily between Associate Offices (AOs) and P&DCs. Local costs include the costs of postal-owned vehicles (cost segment 8).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO
INTERROGATORY OF UNITED PARCEL SERVICE

UPS/USPS-T25-2 Provide and describe in detail any studies regarding the volume of Inter-BMC and Intra-BMC parcels that are entered at the origin SCF.

Response:

Because there are no rate implications associated with entry at the origin SCF, I have not been able to locate any information responsive to this request.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO
INTERROGATORY OF UNITED PARCEL SERVICE

UPS/USPS-T25-4. Refer to library reference USPS-LR-L-88, Appendix A, Table 1. Confirm that for Standard Mail, 15.15% of the volume (measured by weight) is entered at the origin SCF, 4.0% at the origin BMC, and .26% at the origin AO. If not confirmed, explain in detail.

Response:

Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO
INTERROGATORY OF UNITED PARCEL SERVICE

UPS/USPS-T25-5 Explain in detail why it would not be more appropriate to assume that only 5.3% of Inter-BMC parcels and 3.8% of Intra-BMC parcels incur a local leg of transportation from the origin AO to the origin SCF.

Response:

The percents of Inter-BMC and Intra-BMC parcels that are considered to be retail (please refer to the response to UPS/USPS-T21-4) are not necessarily the percents of those Parcel Post rate categories that are entered at the origin AO. I am not aware of a source that would identify the actual percents of Inter-BMC and Intra-BMC volumes that are entered at the origin AO. The transportation model did not incorporate this assumption because, while commercial mail entered at the origin AO may avoid some mail processing costs compared to its retail counterpart, both will incur similar transportation costs. In addition, the Postal Service picks up mail at some mailers facilities, leading to postal transportation costs that will be similar to the transportation from the origin AO to the origin SCF.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO
INTERROGATORY OF UNITED PARCEL SERVICE

UPS/USPS-T25-6. Refer to library reference USPS-LR-L-89, Attachment B, pages 8 and 9.

- (a) Confirm that Alaska non-preferential air costs in the test year are \$1,063,000. If not confirmed, explain in detail.
- (b) Confirm that the Alaska non-preferential air costs are assigned to the transportation costs for intra-BMC and inter-BMC parcels, and not assigned to the transportation costs for Parcel Select parcels. If not confirmed, explain in detail.
- (c) Confirm that in Docket No. R2005-1, USPS-LR-K-89, Attachment B, page 8, the Alaska non-preferential air costs in the test year were \$4,615,000. If not confirmed, explain in detail.
- (d) Confirm that in Docket No. R2001-1, library reference LR-J-64, Attachment B, page 8, the Alaska non-preferential air costs in the test year were \$9,002,000. If not confirmed, explain in detail.
- (e) Confirm that in Docket No. R2000-1, USPS-T-26, Attachment M, page 2, the Alaska non-preferential air costs in the test year were \$9,440,000. If not confirmed, explain in detail.
- (f) Explain in detail the reasons for the material decrease in Alaska nonpreferential air costs in this docket in comparison to Docket Nos. R2005-1, R2001-1 and R2000-1.

Response:

- (a) Confirmed that the Alaska non-pref air costs reported at those pages were shown as \$1,063,000. Please refer to page 7 of Attachment B, at cells D10 and D25 where you will find that I inadvertently repeated the Alaskan highway service cost in the Intra-Alaska non-pref air cost cell. I am filing errata that will correct the Alaska non-pref air cost figures.
- (b) Not confirmed. They are assigned to Inter-BMC, Intra-BMC, DSCF and DDU, but not to DBMC because DBMC service is not available within Alaska. Please refer to cells C39 through C43 on page 9 of Attachment B of USPS-LR-L-89.
- (c) Confirmed.
- (d) Confirmed.
- (e) Confirmed.
- (f) Please refer to my response to part (a) above.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO
INTERROGATORY OF UNITED PARCEL SERVICE

UPS/USPS-T25-7. Refer to library reference USPS-LR-L-89, Attachment B, pages 8 and 9.

- (a) Confirm that Plantload costs in the test year are \$16,000. If not confirmed, explain in detail.
- (b) Confirm that the Plantload costs are assigned to the transportation costs for intra-BMC and inter-BMC parcels, and not assigned to the transportation costs for Parcel Select parcels. If not confirmed, explain in detail.
- (c) Confirm that in Docket No. R2005-1, USPS-LR-K-89, Attachment B, page 8, the Plantload costs in the test year were \$11,000. If not confirmed, explain in detail.
- (d) Confirm that in Docket No. R2001-1, USPS-LR-J-64, Attachment B, page 8, the Plantload costs in the test year were \$2,490,000. If not confirmed, explain in detail.
- (e) Confirm that in Docket No. R2000-1, USPS-T-26, Attachment M, page 2, the Plantload costs in the test year were \$2,095,000. If not confirmed, explain in detail.
- (f) Explain in detail the reasons for the material decrease in Plantload costs in this docket and Docket No. R2005-1 in comparison to Docket Nos. R2001-1 and R2000-1.

Response:

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.
- (d) Confirmed.
- (e) Confirmed.
- (f) Please refer to the testimony of Joseph E. Nash in Docket No. R2005-1 at pages 8 and 9.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO
INTERROGATORY OF UNITED PARCEL SERVICE

UPS/USPS-T25-8. Please refer to the response to UPS/USPS-T21-4. Refer to the response to UPS/USPS-T37-2 and to library reference USPS-LR-L-89.

(a) What were the OMAS-related transportation costs for Parcel Post in FY2005?

(b) What are the projected OMAS-related transportation costs for Parcel Post in the TYBR?

(c) Explain in detail where the OMAS-related transportation costs for Parcel Post are accounted for in USPS-LR-L-89, Attachment B.

Response:

(a) – (b) I do not have the wherewithal to calculate costs for OMAS volumes in isolation. Without a separate distribution of OMAS volumes by zone and weight, etc., I cannot isolate the transportation costs for OMAS from the transportation costs for any other Parcel Post mail in any of the rate categories.

(c) To the extent that the OMAS volumes are combined with the private sector volumes (see the response to UPS/USPS-T37-2), the costs associated with the OMAS volumes in each rate category (Inter-BMC, Intra-BMC, DBMC, DSCF, DDU) would be included within the aggregate costs of each of those rate categories. I cannot isolate the costs associated with transporting OMAS volumes either to identify them or to exclude them.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO
INTERROGATORY OF UNITED PARCEL SERVICE

UPS/USPS-T25-9. Refer to USPS-LR-L-89, Attachment B, page 6 and 17.

(a) Confirm that, per page 17, Parcel Post volume increases from 387.805 million in BY2005 to 411.572 million in the TYBR. If not confirmed, explain in detail.

(b) Confirm that, per page 6, total Parcel Post cubic feet in the TYBR is estimated to be 287.2 million. If not confirmed, explain in detail.

(c) Refer to USPS-T-9, Exhibit USPS-9C, Cost and Revenue Analysis, Base Year 2005, page 3. Confirm that the Parcel Post cubic feet was 381.2 million in BY2005. If not confirmed, explain in detail.

(d) Explain in detail the reasons for the significant decrease in Parcel Post cubic feet from 381.2 million in BY2005 to 287.2 million in the TYBR, despite the increase in Parcel Post volume from BY2005 to the TYBR.

Response:

(a) *Confirmed.*

(b) *Confirmed.*

(c) *Confirmed.*

(d) I would not interpret the difference in numbers as you have. I am not positing a decrease in cubic feet from base year to test year.

The cubic feet estimate in the CRA, which you have cited as the source of your base year cubic feet estimate of 381.2 million, is based on the average weight per cubic foot of 5.0 for Parcel Post in aggregate, a figure which has not been updated for several years. In order to divide the transportation costs among the Parcel Post rate categories, my analysis requires consideration of the densities as they vary by rate category. This detailed information is not available from the CRA. Therefore, I use USPS-LR-L-47 to obtain the estimated cubic feet for Inter-BMC, Intra-BMC and Parcel Select developed from sampling Parcel Post pieces.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO
INTERROGATORY OF UNITED PARCEL SERVICE

As is shown in USPS-LR-L-47, the FY 2005 total cubic feet for *Parcel Post* as developed from sampling is 218,708,665 cubic feet for all *Parcel Post* rate categories, including the Balloon and Oversized pieces. This figure is smaller than my test year estimate of 283.2 million cubic feet. Please refer to USPS-LR-L-90 for the analyses that develop the estimated test year cubic feet per piece by weight for the three major rate categories of *Parcel Post*, and to pages 1 through 6 of Attachment B of USPS-LR-LR-89 for the use of those regression results to estimate test year cubic feet.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO
INTERROGATORY OF UNITED PARCEL SERVICE

UPS/USPS-T25-10. Refer to USPS-LR-L-89, Attachment B, pages 1-5.

(a) Confirm that 1-pound Parcel Post pieces were treated as 2-pound pieces for purposes of calculating total cubic feet for Intra-BMC, Inter-BMC, and Parcel Select parcels. If not confirmed, explain in detail.

(b) Refer to USPS-LR-L-82, WP-PP-8 and WP-PP-10. Confirm that 1-pound Parcel Post pieces were treated as 1-pound pieces for purposes of calculating total cubic feet for Intra-BMC, Inter-BMC and Parcel Select parcels. If not confirmed, explain in detail.

(c) Explain in detail the reasons for the different approaches in estimating the cubic feet for 1-pound Parcel Post pieces in these two library references.

Response:

(a) Confirmed.

(b) Confirmed.

c) The one-pound pieces had been excluded from the regression analyses developed in USPS-LR-L-90 (because $\text{LN}(1)=0$), meaning that they were outside of the sample range of estimates. In addition, because the creation of separate rates for one- and two-pound pieces is relatively recent, and the volume share of the one-pound pieces was relatively small, the fact that separate cube estimates had not been developed for the one-pound pieces was overlooked. A revised Attachment B for USPS-LR-L-89 which incorporates separate cube estimates for the one-pound pieces has been filed.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO
POIR NO. 4, QUESTION 21

21. Please refer to USPS-T-38, page 8, footnote 4. The footnote states that Non-Dropship Zone 5 transportation costs were used as a proxy for DBMC Zone 5 transportation costs because DBMC Zone 5 transportation costs were "inexplicably high."
- a. Please identify the factors causing (or are believed to be causing) DBMC Zone 5 transportation costs to be unreliable.
 - b. High DBMC Zone 5 transportation costs for BMC and Parcel Post have been a common occurrence in past cases as well. Please discuss Postal Service efforts to improve the reliability by which these costs are measured.

RESPONSE:

a. - b. The transportation costs for Zone 5 are not measured, they are estimated. The development of the estimate of Zone 5 DBMC Bound Printed Matter transportation unit cost is shown at page 4 of Attachment A of USPS-LR-L-89. The development of the estimate of Zone 5 transportation unit cost for DBMC Parcel Post is shown at page 12 of Attachment B of USPS-LR-L-89, and for Intra-BMC at page 11 of the same Attachment. Although the figures associated with Zone 5 DBMC transportation costs are much higher than those associated with lower zones, I would not characterize the figures as "unreliable," nor would I agree that efforts need to be made to improve the reliability of these estimates. It is my understanding that the witnesses who use these costs to develop rates have taken the view that in the development of smooth rate relationships in rate design, it is not always necessary to trace the cost relationships precisely.

It is worth noting that only one BMC service area in the United States even has a Zone 5; all other BMC service areas are smaller in great circle distance. There is extremely little volume in Zone 5 DBMC. Zone 5 DBMC volume represents 0.05% of total Parcel Select volume, including Parcel Return Service (PRS), as shown in the

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO
POIR NO. 4, QUESTION 21

adjusted volume distribution on page 24 of Attachment B. Zone 5 DBMC volume represents 0.18% of DBMC Parcel Select volume, as shown on the same page. Within Bound Printed Matter, an estimated 0.07% of total DBMC Bound Printed Matter pounds travel as Zone 5 DBMC. The estimated cubic feet associated with DBMC Zone 5 Parcel Post parcels is 0.12% of total DBMC Parcel Post cubic feet, and the cubic foot miles for Zone 5 DBMC Parcel Post are 2.26% of total DBMC Parcel Post cubic foot miles. DBMC Zone 5 Bound Printed Matter pound miles represent 0.56% of total DBMC Bound Printed Matter pound miles.

The two types of transportation costs assigned to DBMC parcels are local costs, which are distributed on the basis of cubic feet for Parcel Post and pounds (as proxy for cubic feet due to the density of BPM and the lack of data on cube by weight increment for BPM) for Bound Printed Matter, and intermediate, which are distributed on the basis of cubic foot miles for Parcel Post and pound miles for Bound Printed Matter. The development of the unit transportation cost for DBMC Zone 5 adds the local and intermediate costs and divides by the cubic feet associated with DBMC for Parcel Post. The local and intermediate costs are divided by pounds for Bound Printed Matter.

The estimates of cubic feet and cubic foot miles in Parcel Post Zone 5 DBMC are developed on page 6 of Attachment B. The cubic feet are estimated using the regression results from page 1 multiplied by the Parcel Select volume developed on page 19. This distribution of Parcel Select volume includes the addition of relevant Parcel Return Service pieces, as well as the non-PRS volumes reported in the FY 2005 Billing Determinants and inflated from 2005 to 2008 based on the TYBR volume forecast. Similarly, on page 6 of Attachment B, the estimated PRS cubic foot miles from page 28 of Attachment B are added to the cubic foot miles for DBMC obtained from

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO
POIR NO. 4, QUESTION 21

USPS-LR-L-47. Unlike for Inter-BMC and Intra-BMC, the intermediate costs for DBMC are considered to be zone-related and while distributed to rate category on the basis of cubic feet on page 9, DBMC's share of these costs is distributed to DBMC zone on the basis of cubic foot miles.

The estimated pounds and pound miles for Bound Printed Matter are developed on page 4 of Attachment A. On the same page, the local costs are distributed to zone based on pounds and intermediate costs are distributed to zone based on pound miles. The local and intermediate costs by zone are then divided by the pounds in each zone to derive the cost per pound figures by zone that are provided to the pricing witness for rate development.

The primary driver of Zone 5 DBMC transportation costs is the average haul. Please refer to cell E84 on page 28 of Attachment B. There you will see the average haul that is implicit in the origin/destination zones for Zone 5 DBMC Parcel Post is 997 miles. This average haul is calculated by dividing the total cubic foot miles for DBMC in USPS-LR-L-47 by the total cubic feet for DBMC in USPS-LR-L-47. That average haul is nearly three times the average haul of Zone 4 DBMC pieces. The same situation arises in Bound Printed Matter: the average haul for Zone 5 DBMC BPM pieces is 800 miles whereas the average haul for Zone 4 DBMC BPM pieces is only 342 miles. Again, this relatively long average haul for Zone 5 DBMC is related to the relatively few origin/destination pairs which can yield a Zone 5 DBMC designation.

1 MS. MCKENZIE: Excuse me, Your Honor.

2 CHAIRMAN OMAS: Ms. McKenzie?

3 MS. MCKENZIE: I believe UPS wanted to
4 designate three or four additional responses which are
5 included in the packet.

6 CHAIRMAN OMAS: Okay. Would you identify
7 yourself, please?

8 MR. WILSON: Yes. Philip E. Wilson, Jr. for
9 United Parcel Service.

10 CHAIRMAN OMAS: Thank you.

11 MR. WILSON: Mr. Chairman, I'd like to
12 designate additional written cross-examination of
13 Witness Mayes, and those interrogatories and responses
14 are UPS/USPS-T-25-1, 2, 4 and 7.

15 Ms. Mayes has already indicated she has
16 reviewed them. They were included in the packet we've
17 just provided to her.

18 CHAIRMAN OMAS: Without objection. Thank
19 you.

20 Is there anyone else?

21 (No response.)

22 CHAIRMAN OMAS: This then brings us to oral
23 cross-examination.

24 One participant requested oral cross-
25 examination, the American Postal Workers Union,

1 AFL-CIO.

2 MS. WOOD: Jennifer Wood on behalf of the
3 American Postal Workers Union. Mr. Chairman, at this
4 time --

5 CHAIRMAN OMAS: Would you please come to the
6 mic, Jennifer?

7 MS. WOOD: Mr. Chairman, at this time the
8 APWU does not have any questions for this witness,
9 contrary to our expectations.

10 CHAIRMAN OMAS: All right. Thank you.
11 Are there any questions from the bench?

12 (No response.)

13 CHAIRMAN OMAS: There being none, Ms. Mayes,
14 you got off light today.

15 Ms. McKenzie, would you like time with your
16 witness?

17 MS. MCKENZIE: No, Mr. Chairman.

18 CHAIRMAN OMAS: Ms. Mayes, excuse me. I
19 need to excuse you. That completes your appearance
20 here today. We do appreciate your contribution to our
21 record, and you are now excused. Thank you.

22 (Witness excused.)

23 CHAIRMAN OMAS: Ms. McKenzie, would you
24 please identify your next witness?

25 MS. MCKENZIE: The Postal Service next calls

1 Dr. James Kiefer.

2 Whereupon,

3 JAMES M. KIEFER

4 having been duly sworn, was called as a
5 witness and was examined and testified as follows:

6 CHAIRMAN OMAS: Thank you. You may be
7 seated.

8 (The document referred to was
9 marked for identification as
10 Exhibit No. USPS-T-36.)

11 DIRECT EXAMINATION

12 BY MS. MCKENZIE:

13 Q Dr. Kiefer, you've been handed two copies of
14 a document entitled Testimony of James M. Kiefer on
15 Behalf of the United States Postal Service, USPS-T-36.

16 Was this testimony prepared by you or under
17 your direction?

18 A It was. Is my microphone on? It was.

19 Q Do you have any changes to the testimony?

20 A No. I would note that it was revised from
21 the original on June 21, 2006.

22 Q All right. And do the copies before you
23 reflect those revisions, the revision dated June 21,
24 2006?

25 A Yes.

1 Q You have is it one library reference that's
2 associated with your testimony?

3 A I believe that there are two.

4 Q Yes, there are two. USPS-LR-L-36 and
5 USPS-LR-L-68. Is that correct?

6 A Correct.

7 Q If you were to testify today, would your
8 testimony be the same?

9 A Yes, it would.

10 MS. MCKENZIE: Your Honor, at this point I
11 would like to move into evidence the testimony of
12 James M. Kiefer on behalf of the United States Postal
13 Service, USPS-T-36, and the associated library
14 references.

15 CHAIRMAN OMAS: Is there any objection?

16 (No response.)

17 CHAIRMAN OMAS: Hearing none, I will direct
18 counsel to provide the reporter with two copies of the
19 corrected direct testimony of James M. Kiefer.

20 That testimony is received into evidence.
21 However, as is our practice, it will not be
22 transcribed.

23 //

24 //

25 //

1 (The document referred to,
2 previously identified as
3 Exhibit No. USPS-T-36, was
4 received in evidence.)

5 CHAIRMAN OMAS: Mr. Kiefer, have you had the
6 opportunity to examine the packet of written cross-
7 examination presented to you this morning here in the
8 hearing room?

9 THE WITNESS: Yes, I have.

10 CHAIRMAN OMAS: If those questions were
11 posed to you orally today would your answers be the
12 same?

13 THE WITNESS: They would.

14 CHAIRMAN OMAS: Are there any corrections or
15 additions that you would like to make to your
16 testimony?

17 THE WITNESS: No.

18 CHAIRMAN OMAS: Or to your answers?

19 THE WITNESS: No.

20 CHAIRMAN OMAS: Counsel, would you please
21 provide two copies of the corrected designated written
22 cross-examination of Witness Kiefer to the reporter?

23 That material is received into evidence and
24 is to be transcribed into the record.

25 //

1 (The document referred to was
2 marked for identification as
3 Exhibit No. USPS-T-36 and was
4 received in evidence.)

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS JAMES M. KIEFER
(USPS-T-36)

<u>Party</u>	<u>Interrogatories</u>
Advo, Inc.	AAPS/USPS-T36-6, 8 ADVO/USPS-T36-1 NAA/USPS-T36-1-2, 4, 9, 13-14 PRC/USPS-POIR No.5 - Q2a(ver2), 3, POIR No.7 - Q9 redirected to T36 VP/USPS-T36-1, 2a-c, e-h, j-l, 3-4, 9, 13
Association for Postal Commerce	GCA/USPS-T36-1-2 NAA/USPS-T36-5, 12-13 PostCom/USPS-T36-4-10 PSA/USPS-T36-1-8 UPS/USPS-T36-1a VP/USPS-T36-3, 7
Greeting Card Association	GCA/USPS-T36-1-2
Newspaper Association of America	AAPS/USPS-T36-1-2, 6, 8 NAA/USPS-T36-1, 3-19 PRC/USPS-POIR No.5 - Q3 redirected to T36 VP/USPS-T36-4, 5a-b, d-h, 7, 13, 20 VP/USPS-T23-2 redirected to T36
Parcel Shippers Association	PSA/USPS-T36-1-8

PartyInterrogatories

Postal Rate Commission

AAPS/USPS-T36-2, 6, 8

NAA/USPS-T36-3-10, 12-14

PostCom/USPS-T36-9

PRC/USPS-POIR No.5 - Q2a(ver2), 3, POIR

No.7 - Q9 redirected to T36

PSA/USPS-T36-2-5, 8

VP/USPS-T36-5a-b, d-h, 7, 9, 10a-d, f-h, 11, 13-18, 20

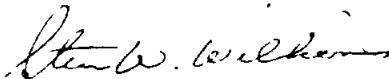
VP/USPS-T23-2 redirected to T36

Valpak Direct Marketing Systems,
Inc. and Valpak Dealers'
Association Inc.

VP/USPS-T36-1, 2a-c, e-h, j-l, 3-4, 5a-b, d-h, 6-9,
10a-d, f-h, 11, 12a, c-d, 13-18, 20

VP/USPS-T23-2 redirected to T36

Respectfully submitted,


Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS JAMES M. KIEFER (T-36)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

Designating Parties

AAPS/USPS-T36-1	NAA
AAPS/USPS-T36-2	NAA, PRC
AAPS/USPS-T36-6	Advo, NAA, PRC
AAPS/USPS-T36-8	Advo, NAA, PRC
ADVO/USPS-T36-1	Advo
GCA/USPS-T36-1	GCA, PostCom
GCA/USPS-T36-2	GCA, PostCom
NAA/USPS-T36-1	Advo, NAA
NAA/USPS-T36-2	Advo
NAA/USPS-T36-3	NAA, PRC
NAA/USPS-T36-4	Advo, NAA, PRC
NAA/USPS-T36-5	NAA, PostCom, PRC
NAA/USPS-T36-6	NAA, PRC
NAA/USPS-T36-7	NAA, PRC
NAA/USPS-T36-8	NAA, PRC
NAA/USPS-T36-9	Advo, NAA, PRC
NAA/USPS-T36-10	NAA, PRC
NAA/USPS-T36-11	NAA
NAA/USPS-T36-12	NAA, PostCom, PRC
NAA/USPS-T36-13	Advo, NAA, PostCom, PRC
NAA/USPS-T36-14	Advo, NAA, PRC
NAA/USPS-T36-15	NAA
NAA/USPS-T36-16	NAA
NAA/USPS-T36-17	NAA
NAA/USPS-T36-18	NAA
NAA/USPS-T36-19	NAA
PostCom/USPS-T36-4	PostCom
PostCom/USPS-T36-5	PostCom
PostCom/USPS-T36-6	PostCom
PostCom/USPS-T36-7	PostCom
PostCom/USPS-T36-8	PostCom
PostCom/USPS-T36-9	PostCom, PRC

Interrogatory

PostCom/USPS-T36-10
 PRC/USPS-POIR No.5 - Q2a(ver2) redirected to T36
 PRC/USPS-POIR No.5 - Q3 redirected to T36
 PRC/USPS-POIR No.7 - Q9 redirected to T36
 PSA/USPS-T36-1
 PSA/USPS-T36-2
 PSA/USPS-T36-3
 PSA/USPS-T36-4
 PSA/USPS-T36-5
 PSA/USPS-T36-6
 PSA/USPS-T36-7
 PSA/USPS-T36-8
 UPS/USPS-T36-1a
 VP/USPS-T36-1
 VP/USPS-T36-2a
 VP/USPS-T36-2b
 VP/USPS-T36-2c
 VP/USPS-T36-2e
 VP/USPS-T36-2f
 VP/USPS-T36-2g
 VP/USPS-T36-2h
 VP/USPS-T36-2j
 VP/USPS-T36-2k
 VP/USPS-T36-2l
 VP/USPS-T36-3
 VP/USPS-T36-4
 VP/USPS-T36-5a
 VP/USPS-T36-5b
 VP/USPS-T36-5d
 VP/USPS-T36-5e
 VP/USPS-T36-5f
 VP/USPS-T36-5g
 VP/USPS-T36-5h
 VP/USPS-T36-6
 VP/USPS-T36-7
 VP/USPS-T36-8

Designating Parties

PostCom
 Advo, PRC
 Advo, NAA, PRC
 Advo, PRC
 PostCom, PSA
 PostCom, PRC, PSA
 PostCom, PRC, PSA
 PostCom, PRC, PSA
 PostCom, PRC, PSA
 PostCom, PSA
 PostCom, PSA
 PostCom, PRC, PSA
 PostCom
 Advo, Valpak
 Advo, Valpak
 Advo, Valpak
 Advo, Valpak
 Advo, Valpak
 Advo, Valpak
 Advo, Valpak
 Advo, Valpak
 Advo, Valpak
 Advo, PostCom, Valpak
 Advo, NAA, Valpak
 NAA, PRC, Valpak
 NAA, PRC, Valpak
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 Valpak
 NAA, PostCom, PRC,
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 Valpak

Interrogatory

VP/USPS-T36-9
 VP/USPS-T36-10a
 VP/USPS-T36-10b
 VP/USPS-T36-10c
 VP/USPS-T36-10d
 VP/USPS-T36-10f
 VP/USPS-T36-10g
 VP/USPS-T36-10h
 VP/USPS-T36-11
 VP/USPS-T36-12a
 VP/USPS-T36-12c
 VP/USPS-T36-12d
 VP/USPS-T36-13
 VP/USPS-T36-14
 VP/USPS-T36-15
 VP/USPS-T36-16
 VP/USPS-T36-17
 VP/USPS-T36-18
 VP/USPS-T36-20
 VP/USPS-T23-2 redirected to T36

Designating Parties

Advo, PRC, Valpak
 PRC, Valpak
 PRC, Valpak
 PRC, Valpak
 PRC, Valpak
 PRC, Valpak
 PRC, Valpak
 PRC, Valpak
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 Advo, NAA, PRC, Valpak
 PRC, Valpak
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 PRC, Valpak
 NAA, PRC, Valpak
 NAA, PRC, Valpak

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KIEFER TO
INTERROGATORY OF THE ASSOCIATION OF ALTERNATIVE POSTAL SYSTEMS

AAPS/USPS-T36-1. Do you agree that, in designing rates for Standard mail, the Postal Service is required to consider the impact of changes in such rates on enterprises in the private sector engaged in the delivery of mail matter other than letters?

RESPONSE

Yes.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KIEFER TO
INTERROGATORY OF THE ASSOCIATION OF ALTERNATIVE POSTAL SYSTEMS

AAPS/USPS-T36-2. Please explain, in detail, how the Postal Service considered the impact of changes in the Standard, ECR saturation rates proposed in this case on enterprises in the private sector engaged in the delivery of mail matter other than letters.

RESPONSE

The Postal Service's billing determinants indicate that there is only a trivial amount of ECR nonletter mail that is not flat shaped, so the impact, if any, would affect few enterprises. The proposed rates for minimum per piece-rated Saturation-rate flats will increase greater than the subclass average, assuming that Saturation mailers continue to use detached address labels to address their mail pieces. The proposed increase for DAL-addressed pound-rated Saturation pieces of average weight will also be above the subclass average. The Postal Service considers that its proposed increases, which are above average, should not have an undue or unfair effect on enterprises in the private sector engaged in delivery of mail matter other than letters.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KIEFER TO
INTERROGATORY OF THE ASSOCIATION OF ALTERNATIVE POSTAL SYSTEMS

AAPS/USPS-T36-6. In Docket No. R2000-1, USPS witness Moeller (T-35) testified, at pages 19-20, that in its proposal in that docket, the Postal Service addressed objections that had been raised by "private alternatives" in Docket No. R97-1 to the reduced pound rate proposed there. Has the Postal Service addressed those concerns here? If so, how. If not, why not?

RESPONSE

Yes. The proposed ECR pound rate incorporates a very modest reduction—only 0.3 percent. Compared to the ECR pound rate in effect as late as to January 7, 2006, my proposal actually reflects an increase of 5.5 percent. As is well known, the Postal Service's most recent rate changes resulted from an "across the board" proposal and did not attempt to adjust the ECR piece and pound rate elements differentially. Seen in this light, my modest adjustment to the "across the board" determined pound rate element cannot be seen by any reasonable and impartial observer as a predatory or anticompetitive attempt to grab large chunks of market share from providers of alternative delivery services.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KIEFER TO
INTERROGATORY OF THE ASSOCIATION OF ALTERNATIVE POSTAL SYSTEMS

AAPS/USPS-T36-8. Please explain the manner and the extent to which the Postal Service considered whether the proposed rates, which will increase for relatively lightweight Standard, ECR Saturation pieces with DDU entry and decrease for relatively heavy Standard Saturation pieces with DDU entry, will encourage movement from stand-alone mailings into multi-piece shared mail and the revenue/contribution implications to the Postal Service of such movement.

RESPONSE:

The observed rate decrease for certain heavier ECR pieces is the result of passing along increased drop ship savings estimates. Non dropshipped heavy weight ECR flats will see a rate increase in my proposal. In developing the proposed rates the Postal Service considered that moderate increases or reductions for heavier weight pieces might possibly encourage existing mail pieces to become heavier. One way for pieces to become heavier is for DDU entered Saturation shared mail pieces to increase their average weights. The Postal Service has not studied whether, or the extent to which, any weight increase that might occur, would result from the expansion of existing components in the shared mailing, or from adding new advertising pieces to the shared mailing. Nor does the Postal Service know the extent to which any newly added advertising material in shared mailings might come from existing standalone mail. The Postal Service has not estimated any revenue or contribution changes that might arise from mailers responses to this specific component of its proposed ECR rate design.

INTERROGATORIES OF ADVO, INC. TO USPS WITNESS KIEFER (USPS-T-36)

ADVO/USPS-T36-1. USPS witness Kelley in response to VP/USPS-T30-3 provided DAL volume data for the two-month period of March-April 2006. That data shows that for ECR High Density Non-Letters entered at the DDU, 7.0 percent used DALs.

- a. Please confirm that under Domestic Mail Manual Section 602.4.1, DALs are permitted to be used only for saturation flat mailings, merchandise samples, and Bound Printed Matter, not for high-density flat mailings.
- b. Notwithstanding the above DMM provision, are DALs used by any ECR High Density flat mailers, such as newspaper "total market coverage" programs mailed to nonsubscribers?
- c. Of the 7 percent of High Density Non-Letters entered at the DDU, what proportion are flats?
- d. Please confirm that under the Postal Service's proposed rate schedule (Attachment A, page 21 of the USPS's Request), the proposed surcharge for DALs, as currently worded, would apply only to "Saturation Rate pieces addressed using detached address labels (DALs)."
- e. Is it the Postal Service's intent that only saturation-rate pieces, which are authorized to use DALs, should be subject to the DAL surcharge, but that non-saturation high density-rate pieces should be exempt from the surcharge. If so, please explain the Postal Service's rationale.

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GCA/USPS-T36-1

Please refer to your prefiled testimony at page 25, lines 7 through 21, and to Library Reference USPS-LR-L-36, page WP-STDREG9 ("Non-ECR Nonletters Disaggregation Shares Matrix").

Please confirm that 1.59 percent of the Standard Regular (including nonprofit) mail now categorized as "Auto Flats" and 0.15 percent of the Standard Regular (including nonprofit) mail now categorized as "Non-auto Flats" would be categorized as "Hybrid Flats" under your proposed rate design changes. If you do not confirm, please explain fully.

RESPONSE

Not confirmed. As can be seen in WP-STDREG-9, all of the percentages in the table sum to 100%. Therefore the percentages in the cells of the table are not shares of Auto Flats or Non-auto Flats. Rather these are shares of total Standard Mail nonletters. The correct way to determine the shares of existing classifications that would be re-categorized as "hybrid flats" would be to divide the figures cited in the question by their respective column totals. The correct share of Auto Flats re-categorized as "hybrid flats" would be 1.80% ($= 1.59$ divided by 88.13). The correct share of Non-auto Flats re-categorized as "hybrid flats" would be 1.99% ($= 0.15$ divided by 7.77).

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GCA/USPS-T36-2

Please refer to your prefiled testimony at page 23, lines 9 through 23.

Please provide your best estimate of the effect on Postal Service revenues of the mitigation referred to in lines 14-15 of this paragraph.

RESPONSE:

My best estimate is that the mitigation would have no effect on Postal Service revenues. I am given a revenue target to meet. Within that revenue target I develop rates that meet various goals, including achieving the target revenue and mitigation of unacceptably high rate changes. Mitigation of rates does not change the target Standard Mail revenue so it has no affect on overall Postal Service revenues.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KIEFER TO
INTERROGATORY OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T36-1.

Please refer to page 31, lines 19-20 of your testimony. Did you give any consideration to abandoning the practice of setting the Basic letter rate equal to the corresponding flats rate? If so, why did you choose to continue the practice? If not, please explain why not.

RESPONSE

As part of the rate case development process many ideas were considered, including this one. In the end, it was believed that continuing the present arrangement would best support the Postal Service's goal of promoting automation and sequencing of letters at plants to the extent possible.

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NAA-USPS-T36-2.

Please refer to page 30, lines 13-26 of your testimony, in which you discuss your proposal to eliminate the DDU discount for letters and state your expectation that "few mailers will continue" to enter letters at the DDU. Consistent with that, your workpaper WP-STDECR shows zero Test Year letter revenue at the DDU level. If an ECR letter mailer chose for service reasons to enter the mailing at the DDU, what rate would be charged?

RESPONSE

The best rate available for ECR letters is the DSCF rate. It is my understanding that the Postal Service routinely transports letters entered directly at delivery units back to plants to sequence them along with other letter mail. Therefore, I don't see why a letter mailer would choose to enter mail at the DDU "for service reasons."

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NAA-USPS-T36-3.

Please refer to page 32, lines 7-13 of your testimony, in which you describe the proposed new charge for detached address labels. Please elaborate on why you chose a surcharge of \$0.015 per piece instead of some other amount.

RESPONSE

The level of the surcharge was not based on a specific cost study. It was an amount that was believed adequate to provide a significant incentive to encourage on-piece addressing.

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NAA/USPS-T36-4.

Please refer to page 32, lines 14-24 of your testimony. Please elaborate on the process by which you "selected" the piece and pound rates for ECR flats.

RESPONSE

The selection process involved the following steps:

- Consideration of the current rates and rate elements
- Choosing a pound rate element that did not exceed the current pound rate element in order to bring greater emphasis to the piece rate element in the overall rate
- Consideration of the relationship between the minimum per piece charge for flats and the minimum per piece charge for letters
- Consideration of how the rates produced by the selected piece and pound rate elements related to the unit cost information for flats
- Consideration of the revenues produced by the rates and how they related to the revenue targets
- Consideration of the impacts on the percentage rate changes for flats and other shapes
- Consideration of how the selected piece and pound rate elements affected the commercial/nonprofit revenue per piece ratio.

These steps were repeated many times over many iterations in an attempt to balance the need to generate increased revenue from ECR and NECR with considerations of achieving reasonable rate changes and maintaining reasonable rate relationships. The order in which I have listed these steps is not necessarily the sequence of events that was followed in any or all iterations.

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NAA/USPS-T36-5.

Please describe what you regard as the appropriate relationship between the piece and pound rates for ECR mail?

RESPONSE

Piece-rated pieces pay a fixed minimum charge per piece for all weights up to the breakpoint weight, currently 3.3 ounces. Pound-rated pieces are those that weigh more than 3.3 ounces and pay a fixed charge per piece and a fixed charge per pound. To ensure that there is no rate anomalies or discontinuities at the breakpoint when a piece transitions from paying the minimum charge per piece to paying a per-piece charge plus a per-pound charge, the per-piece and per-pound rate elements must be selected so that a pound-rated piece would pay the same rate at the breakpoint weight as a piece-rated piece would pay.

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INTERROGATORY OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T36-6.

Please refer to page 32, lines 14-17 of your testimony. Please elaborate on how you used the cost information from witnesses Talmo and Kelley in selecting the base rates for Standard Enhanced Carrier Route mail.

RESPONSE

Please see my response to NAA/USPS-T36-4. I received unit cost information by shape and density from witnesses Talmo and Kelley. I combined the unit mail processing and delivery costs for the base piece, which, for example, for flats was a Basic flat. This served as a reference which informed the selection of the initial flats piece and pound rate elements as well as subsequent changes to the flats piece and pound rate elements in subsequent iterations, when these elements were adjusted to achieve the proposed rates. When the piece and pound rate elements were changed I would refer to the "Mail Processing + Delivery Costs" total shown in cell E6 (for flats) of my workpaper WP-STDECR-16 to ensure that these costs were likely to be covered by the proposed rates.

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NAA/USPS-T36-7.

Please refer to page 32, lines 17-20 of your testimony. Please elaborate on how you used the cost information from witnesses Talmo and Mayes in adjusting the base rates for Standard Enhanced Carrier Route mail.

RESPONSE

The portion of my testimony cited in the question should have also included witness Kelley (USPS-T-30) as one of the sources of the cost information I used in adjusting the base rates. I combined the mail processing unit cost data from witness Talmo with the unit delivery cost information from witness Kelley for each density level. Then I used this information to calculate the differences between adjacent density levels. These resulting figures are shown in the column labeled "Density Savings" in my worksheet WP-STDECR-16. I then multiplied each of these density differentials by the passthroughs in the next column to produce the rate differentials shown in the column labeled "Differential." These differentials were used to adjust the base rates to obtain rates for the respective density levels.

I received cost information from witness Mayes that contained estimates of the cost savings from drop-shipping Standard Mail pieces. These are shown in the row labeled "Entry Savings" in my worksheet WP-STDECR-16 for the various drop-shipping levels. As discussed in footnote 6 of my testimony, I then passed through a portion of these savings into drop-ship discounts to reflect the fact that all minimum-per-piece-rated pieces are given discounts (which are taken off the per-pound rate element) as if they weighed 3.3 ounces—the breakpoint weight. These drop-ship discounts, together with the density differentials, are the adjustments applied to the base prices to develop the detailed rates for each shape category.

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NAA/USPS-T36-8.

Please refer to the "Proposed Rates" spreadsheet of your workpaper WP-STDECR.

- a. Please identify the source of the High-Density and Saturation density cost savings of \$0.0241 and \$0.0185, respectively.
- b. Please explain why you propose to passthrough 120 percent of those cost savings in the density discounts.
- c. Did you consider setting the High-Density and Saturation passthroughs to 100 percent of the cost savings? If so, why did you reject that alternative? If not, why not?

RESPONSE

- a. Please see my response to NAA/USPS-T36-6. The sum of the unit mail processing cost and unit delivery cost for a Basic flat is \$0.1109 (= \$0.0401 + \$0.0708) and for a High Density flat is \$0.0868 (= \$0.0160 + \$0.0708). The difference is \$0.0241. The unit mail processing plus delivery costs for a Saturation flat is \$0.0683 (= \$0.0160 + \$0.0523). The difference between the High Density and Saturation costs (\$0.0868 - \$0.0683) is \$0.0185.
- b. Please see my response to NAA/USPS-T36-4. The selection of the final passthrough values was part of the overall rate development process. Passthroughs were adjusted together with base piece rate elements taking into consideration the items described in the response to NAA/USPS-T36-4. The final passthrough values, in this case 120%, emerged as the end result of this process.
- c. Please see my response to subpart (b), above. I began the rate design iteration process with these values set at 100%, but changed them as the rate design process proceeded. The rate design process yielded final rates that were judged to provide the appropriate balance of the considerations described in response to NAA/USPS-T36-4. These final rates were

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consistent with a passthrough of 120% for these density cost difference
estimates.

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As can be seen in my workpaper WP-STDECR-16, only the passthrough value for High Density parcels was ultimately set different from 100%. This was set at 120% to maintain a fixed rate differential between ECR flats and pieces paying the ECR parcels rates. For additional discussion of this issue, see the discussion of ECR parcels beginning on page 33 of my testimony.

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NAA/USPS-T36-10.

Please refer to the sheet labeled "Standard Mail Commercial and Nonprofit ECR Sample Rate Changes" in your Workpaper WP-STDECR. In general, for the illustrative pieces that your present, parcels appear to receive smaller rate increases than either letters or flats. Please elaborate on why that is an appropriate qualitative result given the desire in this case to rate parcels separately.

RESPONSE

Please see my testimony (USPS-T-36) at page 33, lines 18 to 24. There I discuss my belief that the pieces most likely to be paying ECR parcels rates in the future would be pieces that will be reclassified from ECR flats due to the Postal Service's changes to the definition of what will qualify as a flat. In my testimony I state that, based on this belief, I decided to propose a fixed differential between the rates for ECR parcels and ECR flats to mitigate the rate change impact on pieces that would be reclassified by the definition changes. The fixed rate differential I am proposing, \$0.20, is less than the current residual shape surcharge, \$0.211. Because the percentage rate changes shown in worksheet WP-STDECR-17 are comparisons of the proposed rates to the current rates for parcels paying the residual shape surcharge, the calculated increases are smaller than for flats. But if the proposed rates were calculated with reference to the current ECR flats rates (the rates that reclassified pieces would be paying today) the percentage increases would be higher than shown on WP-STDECR-17 and, clearly, substantially higher than the percentage increases for flats. In any event, the FY 2005 billing determinants show that there are only 632 thousand parcels currently paying the RSS in the ECR subclass. Therefore the number of parcels that might experience a lower percentage increase than letters or flats is rather limited.

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NAA/USPS-T36-11: Prior to revising your testimony to estimate no conversion from DALs to on-piece addressing of saturation flats in the Test Year, you had assumed a 50 percent conversion rate. Did you have any basis for assuming whether the converting mail would have been piece-rated or pound-rated?

RESPONSE:

No. The 50 percent reduction in DAL usage was a general assumption and was not assumed to fall disproportionately on piece-rated or pound-rated pieces.

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NAA-USPS-T36-12: In First-Class Mail, a goal of witness Taufique's proposal is to obtain similar unit contributions from Single-Piece letters in the aggregate and from Presort letters in the aggregate. In Standard Regular and ECR mail, do you consider it desirable to achieve similar unit contributions from any particular categories of mail?

RESPONSE:

No. Measuring unit contribution in Standard Mail below the subclass level is difficult because, unlike First-Class Mail, Standard Mail does not have CRA costs below the subclass level. Even if appropriate cost data were available at the detailed rate category level, achieving the same unit cost contribution by rate category is not an overriding goal of the Postal Service in its Standard Mail rate designs.

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NAA/USPS-T36-13: Please refer to your response to NAA/USPS-T36-1. Assume an alternative rate design in which the rate for a Basic ECR flat was set higher than for a Basic letter (*i.e.*, no non-zero passthrough of the cost difference). How would that be less supportive of the Postal Service's automation and sequencing goals than your proposal to set the Basic flat rate equal to the letter rate?

RESPONSE:

If the Basic ECR letter rates were set below, rather than equal to, the Basic ECR flat rates, the rate differential between the Basic ECR letter rates and the Standard Mail Regular 5-digit Automation letter rates would narrow, or possibly reverse (*i.e.* the Basic ECR letter rates would be below the 5-digit Automation rates). This reduction or reversal of the rate differential would diminish the incentive for mailers to prepare larger trays of 5-digit presorted automation compatible letters that can be directly delivery point sequenced at plants. Reducing this incentive would therefore be less supportive of the Postal Service's letter automation goal to sequence as many letters as possible at plants.

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NAA/USPS-T36-14: What consideration did you give to the effect of the rate increases proposed for Standard ECR High Density on mailers of High Density flats?

RESPONSE:

As part of the overall rate design, I attempted to ensure that High Density flats mailers were not asked to pay rate increases that were excessively higher than mailers of similarly prepared flat-shaped mail. Please see the sample percentage rate increases shown on my worksheet WP-STDECR-17. While it may appear at first glance that Saturation flats mailers are getting rate increases that are well below those requested for Basic and High Density flats mailers, it should be kept in mind that the percentage increases shown in WP-STDECR-17 are for Saturation flats mailers that choose to put addresses on their mail pieces, rather than use detached address labels. Mailers currently using DALs that continue to use DALs will experience significantly higher rate increases. For example, mailers of minimum per piece-rated Saturation flats that continue to use DALs will pay an additional 1.5 cents per piece over the rates shown in WP-STDECR-16. This translates into rate increases from 16.6 percent for origin-entered flats down to 14.0 percent for DDU-entered flats, all above the increases that I am proposing for comparable High Density flats mailers. Mailers of pound-rated High Density flats who enter their mail at DSCFs or DDUs (which represents the most volume in that tier), will also have opportunities to enjoy below-subclass-average rate increases. For example, a 6-ounce flat (the average weight for pound-rated High Density nonletters in FY 2005) will experience rate increases below 5.5

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percent under my rate proposals. This is significantly below the subclass average increase of 7.8 percent, measured at constant volumes (see WP-STDECR-22).

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NAA/USPS-T36-15: Please state your understanding of the rate categories of mail used by newspaper Total Market Coverage programs.

RESPONSE:

My understanding is that these mailers use predominantly ECR High Density and Saturation flats rates.

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NAA/USPS-T36-16: Please refer to the response of witness Kelley to NAA/USPS-T30-6(e). Were you among the "rate design personnel" who "made clear" to Mr. Kelley that "aggregated ECR Non-Saturation unit delivery costs, as presented in USPS-LR-L-67, were sufficient for their purposes"? If so, why were ECR aggregated non-saturation unit delivery costs "sufficient" for your purposes?

RESPONSE

No.

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NAA-USPS-T36-17: Please refer to your response to NAA/USPS-T36-7, in which you state that you combined mail processing cost data from witness Talmo "with the unit delivery cost information from witness Kelley for each density level. Then I used this information to calculate the differences between adjacent density levels."

- a. Please confirm that Basic and High Density are different, but adjacent density levels in Enhanced Carrier Route mail.
- b. Please confirm that witness Kelley provided you with unit delivery cost information that combined the ECR Basic and High Density flats levels as "non-saturation."
- c. Please confirm that the unit delivery cost information that you were provided by Mr. Kelley and that you employ in your workpapers for ECR mail is the same (\$0.0708) for both ECR Basic and ECR High Density flat mail.
- d. Please confirm that in Mr. Kelley's response to NAA/USPS-T30-6, he disaggregated the TY08 unit delivery costs of ECR Basic Flats and ECR High Density flats as 7.325 cents and 5.303 cents, respectively.
- e. How does using a unit delivery cost averaged among two density tiers enable you to calculate the cost differences between, and set rates reflecting those cost differences for, those two tiers?

RESPONSE

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.
- e. With averaged delivery costs between two tiers it is not possible to calculate delivery cost differences between the tiers. The Density Savings differential in my Proposed Rates worksheet therefore reflects only cost differences due to mail processing. I took this into consideration by passing through more than 100 percent of those savings into the rate differential between ECR Basic flats and ECR High Density flats.

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NAA/USPS-T36-18: Please refer to USPS-LR-L-36, workbook WP-STDECR-1, Inputs tab, and to USPS-LR-L-67, UDCModel.USPS, tab "1.Table 1".

- a. Please identify the source of the delivery costs for Saturation flats as reported in cell D84 of WP-STDECR-1, Inputs tab.
- b. Please identify the source of the delivery costs for High Density flats as reported in cell D83 of WP-STDECR-1, Inputs tab.
- c. Please identify the source(s) of the corresponding data in cells D78-80, D82, & D86-88, Inputs tab.
- d. If you are unable to provide the source of the above data, please provide updated cost data. In your response, please incorporate all updates to this information, including the updated delivery cost data provided by witness Kelley in his response to NAA/USPS-T30-6(f).
- e. Please provide an alternate rate schedule based on the correct cost data provided in response to (d). Please use the same procedure used to develop the rates you describe in WP-STDECR-16.

RESPONSE

- a. The source was an earlier version of Table 1 from USPS-LR-L-67. The analogous value in the 6/5/06 revised version of USPS-LR-L-67 is 5.213 cents.
- b. The source was an earlier version of Table 1 from USPS-LR-L-67. The analogous value in the 6/5/06 revised version of USPS-LR-L-67 is 7.083 cents.
- c. The source was an earlier version of Table 1 from USPS-LR-L-67. The corresponding values in the 6/5/06 revised version of USPS-LR-L-67 for Basic and High Density letters is 5.044 cents; for Saturation letters is 3.205 cents; for Basic flats is 7.083 cents; for all parcels is 32.671 cents. As stated in the notes to the Inputs worksheet, I used the unit cost estimates for Standard Regular parcels for ECR parcels; no ECR parcel delivery cost was otherwise available.
- d. Please see my response to subpart (c). I understand that witness Kelley's response to NAA/USPS-T30-6(f) has disaggregated the combined average unit delivery costs for ECR Basic and High Density flats. His revised cost

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estimates for unit delivery costs would change from 7.083 cents for Basic flats to 7.325 cents and from 7.083 cents for High Density flats to 5.303 cents.

- e. Please see my response to NAA/USPS-T36-17(e). I see no reason to change my proposed rates in light of these revised data.

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NAA/USPS-T36-19: Please state the total number of DALs that you use (a) for the Base Year and (b) to project Test Year After Rates revenues.

RESPONSE

(a)-(b) Please see my response to VP/USPS-T36-13(a). The total number of DALs I used to estimate Standard Mail revenues in the TYAR was 4.4 billion (= 40.16 percent of total TYAR Standard Mail Saturation nonletters volume). I did not "use" any figure for the number of DALs in the Base Year since it had no separate revenue or cost implication in that year.

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INTERROGATORY OF THE ASSOCIATION FOR POSTAL COMMERCE AND
THE MAILING AND FULFILLMENT SERVICE ASSOCIATION**

POSTCOM/USPS-T36-4. At page 4 of your testimony, you state that the "rate design and classification" changes you are proposing for the Standard Mail subclasses are designed to "better align with mail processing categories." In footnote 1 on that page, you state that the "hybrids" or "not flat-machinable pieces" are "not commonly processed" on flat sorting machines.

- a. Please provide the data upon which you relied in reaching the conclusion that NFM's "are not commonly processed" on flat sorting machines.
- b. If there are no such data, please list and explain all assumptions that you made with respect to the manner in which NFMs will be processed TYBR and TYAR.

RESPONSE:

- a. The conclusion was not based on an analysis of data, rather it was based on information from persons in the Postal Service who are familiar with the way these pieces are processed. Witness McCrery (USPS-T-42) is one such individual. Please see his testimony at page 20 where he states:

Rigid flats do not process well on the AFSM 100. Even at plants that still have UFSM 1000s that could process such pieces, rigid flats are commonly processed manually or on mechanized or automated bundle/parcel sorting equipment. These items are then sorted manually in an incoming secondary sorting operation at the delivery unit. (Lines 6-10).

And:

Also, extremely small and large flats are problematic in processing even though they may fall within the physical limitations of the UFSM 1000s. These would be pieces less than 5" x 6" or larger than 12" x 15" x 3/4". Such pieces can cause jams or feeder problems when mixed with flats of varying sizes, particularly on the AFSM 100, and they do not stack well in the output tubs.... Therefore, small, large, thick, and rigid flat-shaped mail pieces are unlikely to be processed in an automated flat mail stream. (Lines 15-22).

- b. I assumed that NFMs would be processed as they are processed today. That is, "...commonly processed manually or on mechanized or automated bundle/parcel sorting equipment. These items are then sorted manually in an incoming secondary sorting operation at the delivery unit."(USPS-T-42, at 20).

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POSTCOM/USPS-T36-5. Please:

- a. Provide the data (TYAR) upon which you relied to determine the percentage of NFMs that are pound-rated and the average weight of pound-rated hybrid pieces.
- b. If there are no such data, please list and explain all assumptions that you made to estimate the percentage of hybrid pieces that will be pound-rated and the average weight of such pound-rated pieces.

RESPONSE:

- a. See my worksheet WP-STDREG-29, in particular the section with the heading "Distribution Shares." This section shows the assumed Piece Rate Shares and Pound Rate Shares for NFMs (listed on the worksheet as "Hybrid" pieces). The shares in WP-STDREG-29 are based on the base year piece-rated and pound-rated shares for Automation Flats (for "hybrid flats") and Presorted Parcels (for "hybrid parcels"), as shown in WP-STDREG-15. My rate design did not use any average weight data, but average weights for pound-rated pieces could be calculated from my worksheet WP-STDREG-30 by adding up the figures for Hybrid Pieces under the heading Pound-Rated Pounds and dividing by the sum of the figures under the corresponding Pound-Rated Pieces heading.
- b. Not applicable.

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POSTCOM/USPS-T36-6. Please:

- a. Provide the data upon which you relied to estimate the average density of NFMs.
- b. If there are no such data, please list and explain all assumptions you made with respect to the density of such pieces in your development of the rates and rate design for this new category.

RESPONSE:

- a. I did not estimate the average density of NFMs in developing my testimony.
- b. I made no explicit assumptions regarding the density of NFM pieces in developing my rates.

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POSTCOM/USPS-T36-7. Please refer to page 11, footnote 3, of your testimony, at which you state that “some pieces are expected to migrate” and that “many mailers will reconfigure their non-eligible pieces to meet the new flats definition and to thereby avoid being pushed into the hybrids flat or parcel categories.

- a. Please confirm that the expected migration is from “hybrid flats” to flats. If you do not confirm, please explain in detail your answer.
- b. What is the empirical basis for these statements? If there are no empirical data, what assumptions did you make with respect to migration and reconfiguration in development of your rates for the flats and hybrid category?
- c. In that same footnote, you state that the “rate differentials are designed, in part, to encourage such reconfiguration.” Please confirm that the differentials you are referring to relate to the differentials between the NFM category and the flat category. If you do not confirm, please explain in detail your answer.

RESPONSE:

- a. Not confirmed. The migration I was referring to in my testimony was the eventual migration of some parcel-shaped pieces from the NFM rate category to Standard Mail Regular parcels rate categories.
- b. Please see my workpaper WP-STDREG-9 for the data used to estimate the number of pieces that fall into the “hybrid parcels” category. My statement about “migration” referred to these pieces and did not pertain to the period covered by the rates proposed in the current rate case. Rather, it said that after a transition period, these “hybrid parcel” pieces would no longer be eligible for NFM rates, but would pay Standard Mail Regular parcels rates. The statement about reconfiguration referred to my assumption, that the rate differentials between NFM and parcels rates on the one hand and flats rates on the other would induce some mailers to change their mail pieces to conform to the eligibility requirements for Standard Mail Regular flats. The assumption was based on a perceived desire of mailers to avoid paying higher postage, and not based on any empirical studies. Although some mailers may choose to reconfigure their mail pieces to avoid paying NFM rates during the period covered by the rates I am proposing in this case, I did

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not assume any reconfiguration during the test year for the purposes of
developing my rate proposals or estimating revenue in this case.

c. Confirmed.

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POSTCOM/USPS-T36-8. Please refer to page 22 of your testimony in which you state that "many [NFM] pieces are counted as parcels for cost allocation purposes, but are counted as flats for volume purposes."

- a. Please confirm that there is no Cost and Revenue Analysis ("CRA") specific to Standard Mail hybrid pieces available. If not confirmed, please explain the basis for your answer.
- b. At page 22 of your testimony, you also state that the "mismatch" leads to "difficulties" in getting an accurate estimate of the unit cost of Standard Mail parcels. Do you agree that the "mismatch" also leads to "difficulties" in getting an accurate estimate of the unit revenues of Standard Mail parcels? If you do not agree, please explain your answer in detail.

RESPONSE:

- a. Confirmed.
- b. If Standard Mail parcels is understood as "parcel-shaped pieces paying various Standard Mail rates" I agree. Some of these pieces (the number is not precisely known) pay Standard Mail Regular Automation flats rates and are counted by our RPW system as flats. For this reason, it is difficult to get an accurate estimate of unit revenue for Standard Mail parcel shaped pieces.

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POSTCOM/USPS-T36-9. Please refer to WP-STDREG-26 where it shows the proposed passthroughs by presort level for Standard Mail parcels and hybrids.

- a. Please explain why you consider passthroughs at these levels to be "appropriate de-averaging by presort level" for hybrid flats and Standard parcels as set forth in page 12 of your testimony.
- b. Please identify any studies or research data upon which you relied in reaching the conclusion that the presort levels you have proposed for NFMs and parcels are sufficient to enable mailers to "offset some of the rate increasing impacts of the realignment" as you state at page 12.

RESPONSE:

- a. The quoted statement was intended to refer to the appropriateness of the de-averaged structure of the rate design, rather than to focus on the specific passthrough levels in this rate case. Nevertheless, the passthroughs I have proposed are appropriate within the context of my overall rate proposals. As I discussed on page 19 of my testimony, I significantly mitigated the base rate (i.e. the top rate) for parcels; this mitigation made it practically impossible to give high passthroughs for the estimated cost savings from presorting parcels as well. The overall result was to compress the rate structure across presort levels, as evidenced by the low passthrough figures. The same procedure was followed for nonmachinable parcels rates and for NFM rates: because the top rate was significantly mitigated, I could not then propose full passthroughs for further worksharing.
- b. The quoted statement referred not only to changes in presort levels, but also to enhanced entry options available to parcels and NFMs, such as the proposed addition of a DDU entry discount for these pieces. No specific empirical studies were relied upon to come to my conclusion. One need only consult my worksheet WP-STDREG-27 to see that, for example, a minimum per piece-rated parcel that can be drop-shipped to the DDU will see a rate

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increase of only 7.5 percent. This rate is significantly below the average
increase for the Standard Mail Regular subclass.

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POSTCOM/USPS-T36-10. At page 17 of your testimony, you state that the disaggregated rate design for Standard Mail parcels, among other things, permits "expanded drop ship discounts."

- a. Please provide any estimates (TYAR) that you have made as to the volume of Standard Mail parcels that can, under current mail preparation rules, qualify for a DSCF or a DDU discount.
- b. If you do not have such estimates, please set forth the basis for your conclusion that the drop ship structure and the level of avoided costs passthroughs you have proposed results in "expanded" worksharing options available to Standard mailers.

RESPONSE:

- a. Please refer to my worksheet WP-STDREG-30 for my estimates of TYAR volumes that will qualify for DSCF and DDU discounts. The figures in WP-STDREG-30 were based on total projections of TYAR volumes and entry shares from worksheet WP-STDREG-10, which I obtained from USPS-LR-L-33, sponsored by witness Loetscher (USPS-T-28). It is my understanding that witness Loetscher did not assume any changes to current mail preparation rules to develop his library reference.
- b. Not applicable.

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2a In Docket No. MC95-1, the Postal Service developed unit attributable cost from the "bottom up," by shape, for the presort and prebarcoded rate categories in First-Class and Standard Mail. Total unit attributable cost for each rate category was equal to the sum of unit attributable mail processing cost, unit attributable delivery cost, unit attributable transportation cost, and all other unit attributable costs. See Docket No. MC95-1, Exhibit USPS-T-12C. The Postal Service proposed to use differences in unit total attributable cost as the basis for setting the discounts (i.e., the rate differentials) between rate categories. The Commission rejected that approach in favor of using only differences in unit attributable mail processing costs plus unit attributable delivery costs (in-office and street time) as the basis for rate differences. The Commission explained that presorting and prebarcoding would only directly affect mail processing and delivery costs and that any other differences in total attributable cost would be due to factors other than worksharing. PRC Op. MC95-1, paras. 4208-13. Accordingly, beginning with the restructured rates implemented in Docket No. MC95-1, worksharing differentials in First-Class, Standard Mail, and Periodicals (excluding dropship discounts) have been based on differences in both unit attributable mail processing costs and unit attributable delivery costs.

In the current docket, the cost basis of the Postal Service's proposed worksharing discounts varies from subclass to subclass. First-Class worksharing rate differentials are based on unit attributable mail processing costs. The piece-based worksharing differentials in Periodicals reflect differences in both unit attributable mail processing costs and unit attributable delivery costs. The worksharing rate differentials in Standard Regular and Regular Nonprofit reflect only differences in unit attributable mail processing cost. Worksharing rate differentials in Enhanced Carrier Route and Non-Profit Enhanced Carrier Route reflect differences in both unit attributable mail processing and delivery costs.

- a. A review of the unit attributable delivery costs in USPS-LR-L-67, Table 1, shows that for some subclasses, delivery costs vary only by shape. Thus, for example, within a flat-shaped mail category, the unit attributable delivery cost would be the same for each presort and barcode category. This could be a reason for ignoring delivery cost, at least when calculating presort/barcode discounts. However, in First-Class there are differences in unit attributable delivery cost between nonautomated letters and automated letters and in Standard Mail there are differences in unit attributable delivery cost between nonmachinable and machinable letters. The rate design witnesses for First-Class and Standard Mail have not provided a rationale for departing from the "MC95-1" approach and ignore those differences. The Postal Service is requested to have the appropriate witness for each subclass provide a rationale for departing from the MC95-1 approach, or, if the Postal Service prefers, provide revised rate design spreadsheets that incorporate both differences in mail processing and delivery unit attributable cost.

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RESPONSE:

The cost differences included in the Standard Mail Regular workpapers did not include delivery cost differences by presort tier because the available delivery cost estimates did not vary by presort tier. Where delivery costs did vary (as by density tier for ECR mail), these costs were included. In this sense my approach is consistent with the MC95-1 approach.

In the case of machinable and nonmachinable letters, the delivery cost differences are included in the costs for the base pieces shown in line 7 of WP-STDREG-26 (labeled "Mail Processing + Delivery Costs," in cell D7 for machinable letters and E7 for nonmachinable letters. These mail processing and delivery costs were used to produce the starting point Basic Rate Per Piece and Rate Per Pound (for each of the group benchmark pieces) which then were modified to reflect presort, automation-nonautomation, and entry differences. Because of this, the delivery cost differences between machinable and nonmachinable pieces were incorporated (partially) in the base piece and then, since the base piece per piece rate element and per pound rate element for machinable (or nonmachinable) letters fed into all machinable (or nonmachinable) letter rates (as can be seen by successively applying Excel's Trace Dependents function to these base piece rate elements), the delivery cost differences between machinable and nonmachinable letters did figure into the proposed rates. Again, although the mechanism I used differs from what was used in the past (for example I did not use an explicit passthrough), my approach is consistent with the MC95-1 approach. Please see my response to POIR 5, No. 3 to see the implicit passthrough for the combined mail processing/delivery cost differences into the rate elements for machinable/nonmachinable letters.

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3. In previous omnibus rate cases, beginning with Docket No. R90-1, the Postal Service's direct testimony on rate design has included a discussion of the rationale for its selected percentage passthroughs of shape-related costs into the discounted rates. The "presort tree" presented by the Postal Service provided an analytical framework for evaluating percentage passthroughs for presort, automation, and shape-related costs. Its essential feature was the use of a single benchmark rate with which all other subclass rates could be compared. See Docket No. R90-1, USPS-T-20 at 89-127. This analytical framework improved the Commission's understanding of the Postal Service's rationale underlying its rate design, and facilitated its application of the policies of the Postal Reorganization Act and its pricing factors to the Postal Service's proposed rates. In subsequent rate cases, this approach also made it feasible to evaluate each discounted rate in a subclass for consistency with the principle of Efficient Component Pricing.

For each of the Standard Mail subclasses, the Postal Service in this docket has apparently abandoned the comprehensive approach to rate design that is illustrated graphically by use of the presort tree. The Postal Service's proposed rates in this docket are based on multiple benchmarks, rather than the traditional single benchmark rate that was the essence of the "presort tree" methodology. The Postal Service's rate design testimony does not include any discussion of percentage passthroughs of shape-related cost differences into the proposed rates and the consistency of those implied passthroughs with the pricing factors of the Act. To facilitate evaluation of the Postal Service's proposed discounted rates with the pricing factors of the Act, as well as the principle of Efficient Component Pricing:

- a. Please provide the rationale for abandoning the presort tree methodology in favor of using multiple benchmarks in designing rates within each of the subclasses of Standard Mail.
- b. Please evaluate the amount of each proposed discount in relation to the subclass piece that is most costly in terms of all relevant characteristics including shape, automation compatibility, machinability, and presort level. To assist the Postal Service in responding to this item, two presort trees are diagramed in the attachments to this Presiding Officer's Information Request. Either analytical approach could be used to relate all percentage passthroughs of cost differences in the Standard Regular subclass to one another. Attachment 1 illustrates a presort tree that is consistent with the rate design methodology that underlies the discounted rates for Standard Regular mail that was recommended in Docket No. R2000-1. Attachment 2 illustrates a presort tree that reflects the way the Postal Service has apparently developed proposed rates for Standard Regular mail in this docket. In responding to this item, the Postal Service may use these, or any other framework, that relates the percentage passthroughs implied by each discounted rate to all other discounted rates within the subclass.
- c. In previous rate cases, automation discounts in Standard Mail have been calculated as the difference in avoidable worksharing unit cost between a nonautomated presort category and the corresponding automated rate category. The cost difference was then multiplied by a percentage passthrough to calculate the discount. In this docket, the Postal Service proposes to calculate automation discounts with reference only to other automation categories. Please provide the

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rationale for calculating all automation discounts without reference to
nonautomation rates.

RESPONSE

a. My understanding of the "presort tree methodology" described in the question is an approach to rate making that consists of four steps:

1. Choosing the most costly piece in the subclass as the single benchmark piece for the subclass.
2. Selecting a rate (or combination of rate elements) for the benchmark piece.
3. Identifying a series of cost differences between every other piece and the *benchmark piece, either directly or indirectly (that is, through intermediate pieces)*.
4. Selecting passthroughs for each of the costs differences to develop the rates for all other pieces.

In my view, the "presort tree methodology" works reasonably well when the following enabling conditions are met:

- a. The subclass has a relatively small number of workshared categories.
- b. The benchmark is a significant rate category within the subclass.
- c. Most workshare activities are closely related to the benchmark rate category.

In contrast to the "presort tree methodology" (outlined in steps one to four above), a presort tree that provides a visual aid for charting passthroughs retains some conceptual value even when some of the above enabling conditions are no longer present. Nevertheless, I think that even the presort tree loses considerable value as these enabling conditions weaken and fail.

It is instructive to consider these enabling conditions within the context of Standard Mail Regular today. The current rate structure for Standard Mail Regular is already highly differentiated by presort level, mail piece shape, automation compatibility, and machinability. And, in this case, the Postal Service is proposing

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significant increases in the number of rate categories. Choosing a single benchmark rate category from which all other rates must flow is not mathematically or analytically impossible, although it becomes computationally cumbersome and logically less and less compelling as the number of workshare categories increases.

The "presort tree methodology" makes the most sense when the benchmark is a substantial rate category within the subclass. Over time, with expanded workshare discounts, Standard Mail has shifted so that the traditional benchmark piece, a Basic Presort Nonletter (Flat) had already shrunk to a small proportion of total Standard Mail Regular by the last time the "presort tree methodology" was used (Docket No. R2001-1). Yet, even then, it did have the advantage of being conceptually closely related to more heavily workshared flats, which make up a significant proportion of Standard Mail Regular volume. In contrast, the most costly piece in the current docket's proposed rate design is a nonmachinable parcel. According to the Postal Service's volume forecasts, there will be less than 100 million nonmachinable parcels in Standard Mail Regular in the TYAR, less than 0.2% of total subclass pieces. This is not a numerically substantial rate category and, in my view, it doesn't make rate design sense to start from and tie all Standard Mail Regular rates to a category with such a small presence in the mix.

I think it is also questionable, for example, to link the presort rate design for flats to the presort design for nonmachinable parcels (see my response to subpart (b) which uses a modified version of the question's Attachment 2 presort tree). Flats and parcels have different mail processing paths; use different kinds of machine sorting; and are finalized differently in plants. Consequently, they have different mail makeup requirements. It is not clear to me that calculating a "passthrough" for the "cost differences" between, for example, 3-digit

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nonmachinable parcels and 3-digit nonautomation flats is very instructive. The key relationships, in my view, are those that go down the branches: how a 3-digit nonmachinable parcel rate relates to a Mixed ADC parcel rate and how a 3-digit nonautomation flat rate relates to a Mixed ADC flat rate. For this reason, I believe it is useful, when designing rates, to choose separate benchmarks for the separate logical categories (flats and parcels, for example) and then focus more carefully on reasonable rate relationships down the branches. Naturally, costs and other factors will need to be considered in the relationships between the major branches. But this does not require developing passthroughs that relate, for example, 3-digit presorted letters, automation flats, nonautomation flats, etc. all back to 3-digit nonmachinable parcels through a daisy-chain of sometimes questionable passthrough calculations.

In summary, with the Postal Service's proposals in this case, Standard Mail will become increasingly complex. Yet this complexity has a logic of its own within it: a shape-based rate design to reflect the underlying shape-based mail flows. In my view, a more categorized, multiple-benchmark approach fits the complexity better than force-fitting rate design back into the traditional single-benchmark "presort tree methodology." In reality, once each benchmark is chosen, my approach to developing presort and drop-ship discounts is similar to the traditional approach. In both, discounts are developed by determining cost-based differences between presort and drop ship levels, and then passing through an amount that is calculated by multiplying the cost differences by selected passthroughs. In other words, within the "branches," the new approach is not much different from its predecessor.

- b. Please see the worksheets labeled "Presort Tree" in each of the Excel workbooks, WP-STDREG-0621-POIR5-Resp and WP-STDECR-0621-POIR5-Resp, which are provided in USPS- LR-L-148. In responding to this question, I adopted a modified

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version of the Attachment 2 "presort tree" model. I rearranged the "branches" so that the most expensive category, Nonmachinable Parcels, appears at the left and lower-priced (or more highly discounted) categories are to the right and down the sheet. I also included the Non Flat-Machinable (NFM), or "hybrid" piece, rate category in the Standard Mail Regular tree. Putting NFMs into the tree necessitated establishing a second level (or "third dimension") to the tree. I added this additional level (and one for automation flats) because a strictly linear progression of rate categories across the worksheet seemed to compel calculating "passthroughs" of questionable value, such as "passthroughs" between NFMs and Nonautomation Flats, or between Automation Flats and Nonmachinable Letters. The ECR tree generally has the same structure as the Regular tree, although it is much simpler and has all relationships on one level.

- c. Please see my WP-STDREG-26 ("Proposed Rates") in USPS-LR-L-36. In line 10 of that sheet, an automation rate differential is proposed for letters (cell D10) and flats (cell F10). If one compares the formulas for the base automation letter (cell H27) and the base nonautomation machinable letter (cell H33), one can see that the formulas are essentially the same, except for the subtraction of the proposed automation differential from the automation letter rate. One can also verify that this is the result by comparing the rates in the two cells (H27 and H33). They differ by the amount of the proposed automation differential.

The same is true for automation and nonautomation flats. In that case, the appropriate cells to compare are the per-piece rate elements for the base automation and nonautomation flats (both have the same per-pound rate element). These rates (and their underlying formulas) are in the cells M53 and M59.

Although the methodology I used differed from the passthrough approach mentioned in the question, inspection of WP-STDREG-26 shows that the

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automation rates are developed by subtracting the proposed automation
differentials from the relevant nonautomation rate elements.

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- 9 Please refer to USPS LR-L-36, ECR rate design worksheets.
- a. Please explain why the pound formula was used for the high density letter rate. Confirm that using this formula results in a presort discount for high density letters of 4.3 cents rather than the 3.4 cents stated as the rate differential.
 - b. Please explain in detail how the difference in the pound rate for letters and non-letters was calculated.

RESPONSE

- a. Usually I used the piece and pound formula to determine the price for the most expensive piece in a category, for example, the Basic density tier. In the case of ECR letters, I followed the Postal Service's past practice of exogenously setting the rates for Basic letters equal to the corresponding rates for Basic flats. This was done, as in the past, to support the Postal Service's automation program by giving mailers a price incentive to prepare automation compatible letters, rather than smaller carrier-route bundles of letters. Because the Basic letter rates were not set separately from the Basic flat rates by using the piece-pound formula (with the weight set at the breakpoint weight), setting the High Density letter rates by taking a discount off the Basic letter rates would be equivalent to making the High Density letter rates discounted Basic flat rates. Instead, I chose to develop a conceptual "base price" for ECR letters using the per-piece and per-pound rate elements shown in cells D7 and D8 of WP-STDECR-16, and then take the discount off that "base price." This can be seen by inspecting the formulas for the High Density letters rates contained in cells H26 through J26 of WP-STDECR-16. The letter rate elements apply only to the proposed pricing for ECR minimum per piece-rated letters. Therefore, using the formula served only as a tool to effect the choice of High Density (and Saturation) letter prices. The rate differential of 3.4 cents refers to the difference between the conceptual "base price" for ECR letters. The actual

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difference between the High Density letter prices and the ECR Basic letters price (i.e. Basic flats price) is 4.3 cents.

- b. No formula was used to determine this rate element. My pound rate elements for letters and flats started out the same (see also my response to VP/USPS-T36-7(b) and 7(c)(i)) but the pound rate element for flats was adjusted over the course of numerous iterations to achieve the ECR target revenue while maintaining appropriate rate changes and rate relationships. Since the piece and pound rate elements for letters are only used to develop rates for minimum per piece-rated letters, the absolute value of the pound rate element, taken by itself, has no special importance. It could easily have been set equal to the flats pound rate element and the piece rate element adjusted to achieve the same prices I am proposing, as was done for Standard Mail Regular. In the end, my view is that the mathematical mechanisms I used to develop the proposed rates are of lesser importance than the rates themselves. I believe that the proposed letter rates are reasonable and appropriate within the context of this case.

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PSA/USPS-T36-1. Please refer to USPS-T-13, Attachment 14 and USPS-T-30, Table 1, and Table 1 below.

Table 1. Test Year Standard Regular Parcel Unit Costs (in Cents)

Shape	Unit Cost
Mail Processing	59.60
Delivery	32.671
Transportation	
Other	
Total	

- (a) Please confirm that the unit mail processing and delivery costs in Table 1 are accurate. If not confirmed, please provide the correct figures and provide your source.
- (b) Please provide the Test Year unit transportation cost, the unit "other" cost, and total unit cost for Standard Regular parcels. Please also provide your sources and all underlying calculations.

RESPONSE:

- (a) Confirmed. While I have not independently verified the accuracy of the assumptions and calculations witnesses Smith and Kelley used to produce these cost estimates, I have no reason to question their accuracy or their suitability for use in pricing.
- (b) It is my understanding that no estimates of the requested quantities have been developed.

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PSA/USPS-T36-2. Please provide the average Test Year Before Rates (TYBR) and Test Year After Rates (TYAR) unit revenue for Standard Regular parcels. Please also provide your sources and all underlying calculations.

RESPONSE:

The TYBR Average Revenue is 77.1 cents (\$416,825,382 divided by 540,778,584 pieces). The TYBR revenue (\$416,825,382) is the sum of the parcels revenues (net of barcode discount) from workpaper WP-STDREG-21. The piece counts (540,778,584) are the sum of the piece-rated parcel pieces and pound-rated parcel pieces from WP-STDREG-19.

The TYAR Average Revenue is 114.6 cents (\$513,986,231 divided by 448,594,236 pieces). The TYAR revenue (\$513,986,231) is the sum of the parcels revenues from workpaper WP-STDREG-32. The piece counts (448,594,236) are the sum of the piece-rated parcel pieces and pound-rated parcel pieces from WP-STDREG-30.

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PSA/USPS-T36-3. Please provide the average Test Year Before Rates (TYBR) and Test Year After Rates (TYAR) unit revenue for Standard Regular hybrids. Please also provide your sources and all underlying calculations.

RESPONSE :

The TYBR revenues were not separately calculated for pieces that are expected to pay NFM (or "hybrid" flats) rates if the Postal Service's proposals are implemented.

The TYAR Average Revenue is 66.8 cents (\$419,795,207 divided by 628,397,096 pieces). The TYAR revenue (\$419,795,207) is the sum of the NFM (or "hybrid" piece) revenues from workpaper WP-STDREG-32. The piece counts (628,397,096) are the sum of the piece-rated hybrid pieces and pound-rated hybrid pieces from WP-STDREG-30.

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PSA/USPS-T36-4. Please refer to line 25 on page 18 through line 3 on page 19 of your testimony where you state, "Higher destination entry discounts recognize the fact that parcels generally are more costly to transport and move about due to their larger size, so avoiding these operations would be expected to result in larger postal savings." Has the Postal Service estimated the costs avoided by dropshipping Standard Mail parcels? If so, please provide this information.

RESPONSE:

To my knowledge the Postal Service has not developed avoided costs specifically for drop shipping Standard Mail parcels.

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PSA/USPS-T36-5. Please refer to note 8 (which applies to Test Year Mail Processing Costs Per Piece) to USPS-T-36, WP-STDECR-1. This note states, "USPS-LR-L-84 (Talmo), Table 1 (Flats data used for all nonletters)." Please also refer to USPS-LR-84, Table 1.

- (a) Please confirm that USPS-LR-L-84, Table 1 shows unit mail processing costs of 3002.666 cents per piece for Standard Mail ECR Basic Parcels and 606.399 cents per piece for Standard Mail High Density/Saturation ECR parcels.
- (b) Please explain why you used the unit costs for ECR flats as proxies for the unit costs for ECR parcels, rather than using the unit costs for ECR parcels from USPS-LR-L-84, in your Standard Mail ECR rate design.
- (c) Do the unit cost figures for Standard Mail parcels in USPS-LR-L-84 appear credible to you? Please explain your response fully.

RESPONSE:

- (a) Confirmed.
- (b) The unit cost estimates for ECR parcels in USPS-LR-L-84 were significantly higher than the unit cost estimates developed for Standard Mail Regular parcels. Given the higher average degree of preparation typical of ECR parcels, lower unit costs would normally have been expected. In light of this anomalous relationship and the extraordinarily high estimated values for the unit costs, I determined that the USPS-LR-L-84 unit cost estimates for ECR parcels were not suitable to use in developing ECR parcel pricing. I then determined that the ECR flats unit cost estimates would serve as a more useful reference point for ECR parcel pricing since both ECR flats and ECR parcels have a relatively high degree of preparation by the mailer before they are tendered to the Postal Service, and the flats unit costs would reflect this high degree of mailer preparation.
- (c) As I described in subpart (b), the USPS-LR-L-84 unit cost estimates for ECR parcels are both extraordinarily high and also higher than the comparable Standard Mail Regular parcels unit costs. In my judgment, their extraordinarily

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high values and anomalous relation to Standard Mail Regular parcels unit costs
make them unsuitable to use for pricing purposes.

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INTERROGATORY OF PARCEL SHIPPERS ASSOCIATION**

PSA/USPS-T36-6. Please refer to USPS-T-36, WP-STDREG-1 and USPS-T-13, Attachment 14.

- (a) Please confirm that your Standard Regular rate design spreadsheet assumes that 100% of Standard Regular parcels will be barcoded in TYAR. If not confirmed, please provide the correct figure and all of your underlying calculations.
- (b) In FY 2005, what percentage of Standard Regular parcels were barcoded?
- (c) Please provide your best estimate of the TYAR cost savings that will result from the increase in the proportion of Standard Regular parcels that will be barcoded and provide your underlying calculations.
- (d) Please confirm that the cost savings specified in subpart (c) of this interrogatory have not been incorporated into the Standard Regular parcel unit mail processing cost estimates in Attachment 14 to USPS-T-13. If not confirmed, please explain fully.
- (e) Assume that, in TYAR, the proportion of Standard Regular parcels that are barcoded will be the same as specified in subpart (b) of this interrogatory. How much higher would your estimate of Standard Regular parcel revenue be? Please provide your underlying calculations.
- (f) Please explain the basis for your assumption that, in TYAR, all Standard Regular parcels will be barcoded.

RESPONSE

- a. Confirmed.
- b. I do not have an accurate count either of barcoded parcel-shaped pieces or even of total parcel-shaped pieces for FY 2005. Standard Mail Regular parcels include not only parcels that pay the residual shape surcharge (RSS) but also an unknown number of parcel-shaped pieces that currently pay automation flats rates under the UFSM 1000 flats eligibility rules. All of the parcels in the latter group would be barcoded, though with a Postnet barcode. Machinable parcels that pay the RSS and that are barcoded are eligible for a barcode discount and the Postal Service's RPW system has counts of parcels claiming the barcode discount. But there may be additional parcels that are barcoded that do not receive the discount. I do not know how many fall into this last category. Billing determinants data show that the total barcode discount adjustment for FY 2005 was about \$9.7 million, implying that about 325 million Standard Mail Regular parcels took the three-cent barcode discount. These 325 million pieces constitute about 56% of total Standard Mail

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Regular pieces paying the RSS, or about 62% of pound rated pieces paying the RSS. Piece-rated parcels are too light to be machinable and so are not eligible for the barcode discount, whether barcoded or not. The pound-rated pieces category also contains some pieces that are too light to be considered machinable, so the 62% figure understates the proportion of machinable parcels that are barcoded to some unknown extent.

- c. Please see my response to subpart (b). Without a better estimate of the current proportion of parcel-shaped pieces that are barcoded as well as further information on what percentage of currently non-barcoded parcels would end up sorted by machine, I cannot make this calculation.
- d. Confirmed. Since the cost calculation is not possible, it cannot be incorporated.
- e. Please see my response to subpart (b). The proportion of Standard Mail Regular parcel-shaped pieces that are barcoded is unknown, so I cannot answer this question.
- f. My rate proposals contain a surcharge of five cents for each Standard Mail parcel that does not bear a barcode. I believe that this surcharge provides a strong economic incentive to Standard Mail parcel mailers to affix a barcode on each parcel. While some mailers may opt to pay the surcharge, I believe that the incentive would generate a high rate of compliance with the barcoding requirement. In that light, assuming 100% compliance for the purposes of revenue estimation seemed a reasonable simplifying assumption, especially since this assumption was not likely to have a substantial impact on Standard Mail rates or revenues.

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PSA/USPS-T36-7. Please refer to lines 24 through 27 on page 17 of your testimony, which states, “[i]t gains visibility for these parcels in the Postal Service’s cost and volume reporting systems. Because of this enhanced visibility, we will expect to have better information on which to base pricing decisions for parcels in the future.”

(a) Please explain fully how your rate design proposal will gain “visibility for [Standard Mail] parcels in the Postal Service’s cost and volume reporting systems.”

(b) Please explain fully how the enhanced visibility will yield “better information on which to base pricing decisions for parcels in the future.”

RESPONSE

a-b. At present, parcel-shaped Standard Mail pieces pay postage as either RSS pieces or automation flats. The Postal Service’s RPW by Shape Report uses postage statement data for its source of Standard Mail data. Standard Mail parcel shaped pieces that can qualify for automation flat rates are recorded on postage statements as having a flat shape. Therefore, an unknown number of Standard Mail pieces that have parcel characteristics are not identified as such in the RPW by Shape Report totals. In contrast, the principal source of mail processing information, the IOCS, identifies the shape of Standard Mail based on its physical characteristics so there are cases when IOCS would identify a Standard Mail item as a parcel when the RPW by Shape report would report it as a flat. Under my proposals, parcel-shaped pieces will be separately distinguished and pay postage as parcels. This will eliminate the data disconnect between the RPW by Shape Report and IOCS. Furthermore, because of the enhanced presort and drop ship categories being proposed, the Postal Service will have reasonably accurate Standard Mail parcels data by detailed presort, machinability and entry levels. The more accurate cost information, together with a better picture of Standard Mail parcels’ mail characteristics are the “better information” I was referring to in my testimony. This information will significantly improve the Postal Service’s resources for pricing Standard Mail parcels in the future.

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PSA/USPS- T36-8. Please refer to your response to PSA/USPS- T37 -2 where you confirmed that "the Savings Passthrough shown in this workpaper is calculated by dividing the total revenue difference between PRS parcels and those parcels if mailed as intra-BMC parcels by the corresponding total cost difference. If not confirmed, please explain fully." Do you believe that dividing the total revenue difference between Standard Mail Regular parcels and Standard Mail Regular flats by the corresponding total cost difference is a reasonable way to calculate the effective passthrough of the Standard Mail Regular flat-parcel cost difference? Please explain your response fully.

RESPONSE

Please see my response to VP/USPS-T36-18(a) and POIR5, question 3(a). In those responses I indicated my belief that the key rate relationships—and therefore, the key passthrough relationships—were those between presort levels within the same mail category, that is, those relationships that were essentially different levels of worksharing for similar mail pieces. In this interrogatory, the first example (PRS vs. Intra-BMC parcels) fits within this category, while the second example (Standard Mail Regular parcels vs. Standard Mail Regular flats) does not. In the first example, identical parcels could be tendered as either Intra-BMC parcels or as PRS parcels. It is the worksharing performed by the PRS customer that is the *prime factor in differentiating the cost*, and using this cost difference to calculate a passthrough of costs into rates is reasonable. The second example is quite different. A parcel might have to be substantially reconfigured in shape to be mailed as a flat. This reconfiguration is not an avoidance of work that the Postal Service might otherwise perform, although the work that is performed is less costly. Moreover, the two mail pieces (flats and parcels) are processed and delivered in substantially different ways and have substantially different mail characteristics, so that the costs of flats and parcels would reflect many different factors, including, for example, different presort and entry profiles. All of the foregoing leads me to believe that while it is possible to calculate a ratio of shape-based rate differences to shape-based cost differences and express this as a percentage, as suggested in the question, this "passthrough" might not have the same meaning or

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significance as a passthrough of a worksharing cost. Nonetheless, rate design should always consider rate relationships between rate cells, including consideration of underlying cost differences. Whether this is achieved through a mechanical rate design with the percentage as an input, or through a conscious selection of rate differences by the rate designer is, ultimately, immaterial.

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UPS/USPS-T36-1.

- (a) Please confirm that, under the rates you have proposed, a Standard Mail Regular nonmachinable parcel that has been presorted to 3-digit ZIP Codes will receive a lower rate than a comparable machinable parcel sorted to BMCs.
- (b) If the rate relationship described in subpart (a) is confirmed, please indicate whether the Postal Service intends to adopt rules to prevent machinable parcels from being made nonmachinable in order to benefit from the lower rates.

RESPONSE:

- a. Confirmed.
- b. Redirected to the Postal Service.

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VP/USPS-T36-1.

Please refer to the following portions of your testimony USPS-T-36:

- Page 12, beginning on line 26, where you say: "I have developed a rate design methodology that differs from the 'formula' approach in use (with modifications) since Docket No. R90-1." (USPS-T-36, p. 12, l. 26 to p. 13, l. 1.)
- Page 14, beginning on line 3, in your discussion of the development of commercial Regular rates, where you state: "I developed rates for each grouping of letters by selecting rate elements for the least workshared piece and developed other prices to reflect worksharing, point of entry and other relevant factors.⁵ In the case of the machinable letters group (which includes automation letters) the base piece was a Mixed AADC nonautomation letter entered at an origin facility. The piece rate for such a Mixed AADC letter is \$0.140 and the pound rate is \$0.739. For a piece-rated letter (weighing from 0 to 3.3 ounces) these rate elements produce a minimum per piece rate of \$0.292." (USPS-T-36, p. 14, ll. 3-10.)

Footnote 5 states: "The starting piece and pound rates for letters ... were originally selected based upon the approximate rate increase required to achieve the cost coverage targets provided to me by witness O'Hara (USPS-T-31). The base piece rate elements were then adjusted iteratively to achieve revenue targets while keeping other rate design goals such as appropriate rate relationships in mind." (USPS-T-36, p. 14, fn. 5.)
- Your workbook file WP-STDREG.xls in USPS-LR-L-36, sheet 'Proposed Rates,' cell H33, containing the following formula: "="+ROUND(\$D\$8+ROUND((\$D\$9-R\$20)*\$D\$6/16,3)-\$F33,3)".
- Page 32, beginning on line 14, on setting commercial ECR rates, which says: "As with letters, I selected piece and pound rates for the base piece (an origin-entered Basic flat) based on current rates and cost information from witnesses Talmo ... and Kelley...." (USPS-T-36, p. 32, ll. 14-16.)
 - a. Please confirm that cell D8, referenced in the above formula, contains the "base piece rate" of \$0.140 to which you refer on page 14. Please explain any failure to confirm.
 - b. Please confirm that cell D9, also referenced in the above formula, contains the pound rate of \$0.739, to which you refer on page 14. Please explain any failure to confirm.
 - c. Please confirm that the above formula is a key step in your "rate design methodology that differs from the 'formula' approach in use (with modifications) since Docket No. R90-1." Please explain any failure to confirm.
 - d. Please confirm that the final minimum per-piece rate that results from your formula is \$0.292. Please explain any failure to confirm.
 - e. As a conceptual matter, please explain how thinking about the "base piece rate" of \$0.140 is helpful to you in leading to the final minimum per-piece rate of \$0.292.

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Response to VP/USPS-T36-1 continued

- f. Borrowing from your statement on page 32 for ECR rates, which suggests that the "base piece rate" of \$0.140 might be based "on current rates and cost information" (p. 32, ll. 14-15), please provide and explain the cost information on which you relied to help you select the "base piece rate" of \$0.140, specifying precisely what that cost information is and explaining how it relates to the piece rate of \$0.140.
- g. Please explain any relationship you see between the cost of the pieces that pay \$0.292 and the "base piece rate" of \$0.140.
- h. Please explain any relationship you see between the cost of the pieces that pay \$0.292 and the rate of \$0.292 paid by those pieces.
- i. Beginning with your "starting" point of "the approximate rate increase required to achieve the cost coverage targets," discussed in footnote 5, please explain the reasoning by which you arrived at your "base piece rate" of \$0.140.
- j. Do you agree that none of the pieces paying the minimum-per-piece rate of \$0.292 pay the pound rate of \$0.739 or the "base piece rate" of \$0.140? Please explain any failure to agree.
- k. At those times when you saw a need to adjust rates "iteratively to achieve revenue targets," please explain how you decided which "base piece rate elements" to change, explaining in detail any role that the cost of these base pieces played in the decision to change the rate.

RESPONSE

- a. Confirmed.
- b. Confirmed.
- c. This formula is a way to implement part of my rate design methodology. In that sense, it could be considered a "key step."
- d. Confirmed that the proposed rate for the non-drop-shipped Mixed AADC Nonautomation machinable letter rate (the rate for the "base piece") is \$0.292.
- e. Generally, by establishing piece and pound rates and applying these to both piece-rated pieces and piece-and-pound-rated pieces, consistency at the break point can be easily achieved. While letter-shaped pieces having weights greater than the break point do not pay piece and pound rates in the way nonletter-shaped pieces

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Response to VP/USPS-T36-1 continued
do, the parallel rate element structure used to develop the letter rates is useful in
facilitating comparison between the proposed rates for letters and those for
nonletter-shaped pieces.

- f. Cost information was available from witnesses Miller and Kelley on the unit mail processing and delivery costs for the "base piece." These are shown separately in the Inputs worksheet of my workbook WP-STDREG.XLS, and are summed for machinable letters in cell D7 of the Proposed Rates worksheet. This sum served as a reference point when I chose both the piece and pound rate elements shown in cells D8 and D9. Other factors also contributed to the choice of these elements.
- g. Please see the response to subpart (f). The choice of the base piece rate was not intended to reflect a precise mathematical formulaic relation to the cost information presented in cell D7. It should be noted that the cost information in D7 serves as a reference point for the piece and pound rate elements to ensure, for example, that the proposed rates do not fall below the summed unit cost data in D7.
- h. Please see my response to subpart (g).
- i. The starting point rate elements, including the base piece rate elements mentioned in the question, were adjusted up or down over the course of numerous iterations as needed to produce prices that covered costs, met subclass revenue targets, resulted in acceptable and reasonable rate increases, and bore acceptable and reasonable rate relationships to other proposed rates. The base piece rate cited in the question was a mechanism to arrive at appropriate pricing for letters and was not seen as an end or outcome of the process in itself.

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Response to VP/USPS-T36-1 continued

- j. All minimum-per-piece-rated pieces, of whatever shape, pay a single rate per piece and do not calculate or pay separate piece and pound rates, regardless of the mechanism I used to arrive at those rates. The rates I propose for minimum-per-piece-rated pieces of all shapes are shown on my Proposed Rates spreadsheets as single per-piece prices. They are also presented as single per-piece prices in the proposed Rate Schedules filed by the Postal Service in this docket.
- k. When rate adjustment was deemed necessary, it was seldom the case that a single base piece rate element was the only rate element to be changed. For example, if the rates produced revenues that exceeded the target, several rate elements would likely be lowered together to maintain appropriate rate relationships. Similarly, if rate change mitigation were deemed necessary for one rate category, various rate elements in other rate categories might be simultaneously raised to offset the revenue shortfall. The costs of base pieces did not usually trigger a decision to change a rate, although they served as reference points during the rate change process.

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VP/USPS-T36.2.

In Regular Standard, please refer to the rates proposed at the minimum per-piece level for mixed ADC flats of 43.1 cents (per piece) and for mixed ADC letters of 29.2 cents, both machinable. (See, e.g., Request, Attachment A, pp.11-12, Rate Schedule 321A.)

- a. Please confirm that the mail processing cost for these mixed ADC letters, shown in USPS-LR-L-48, is 5.546 cents. If you do not confirm, please correct this cost or supply an alternative cost, and substitute your estimate in the following parts of this question, as appropriate.
- b. Please confirm that the carrier cost for these mixed ADC letters, shown in USPS-LR-L-67, is 3.596 cents. If you do not confirm, please correct this cost or supply an alternative cost, and substitute your estimate in the following parts of this question, as appropriate.
- c. Please confirm that the attributable mail processing plus carrier costs of these letters is 9.142 cents. If you do not confirm, please correct this cost or supply an alternative cost, and substitute your estimate in the following parts of this question, as appropriate.
- d. Please confirm that USPS-LR-K-119, Docket No. R2005-1, showed the cost for all Regular Standard letters, exclusive of mail processing and carrier costs, to be 0.6417 cents, and that Postal Service witness Yorgey, in Docket No. MC2005-3, USPS-T-2 (see, e.g., p. 4 of Appendix A), used the figure of 0.6417 cents as the cost of letters beyond mail processing and carrier costs. If you do not confirm, please provide alternative add-on costs, identifying their source. Also, please update the cost of 0.6417 cents to the instant docket and FY 2008.
- e. Please confirm that, based on these costs, the per-piece contribution of these letters is 19.42 cents, implying a cost coverage of 298.46 percent. If you believe these figures are wrong, please provide alternative figures, explaining their derivation.
- f. Please confirm that the mail processing costs for mixed ADC flats, shown in USPS-LR-L-43, is 23.522 cents. If you do not confirm, please correct this cost or supply an alternative cost, and substitute your estimate in the following parts of this question, as appropriate, explaining its derivation.
- g. Please confirm that the carrier costs for these mixed ADC flats, shown in USPS-LR-L-67, is 9.413 cents. If you do not confirm, please correct this cost or supply an alternative cost, and substitute your estimate in the following parts of this question, as appropriate, explaining its derivation.
- h. Please confirm that the attributable mail processing plus carrier costs for mixed ADC flats is 32.935 cents. If you do not confirm, please correct this cost or supply an alternative cost, and substitute your estimate in the following parts of this question, as appropriate, explaining its derivation.
- i. Please confirm that USPS-LR-K-119, Docket No. R2005-1, showed the costs for flats, exclusive of mail processing and carrier costs, to be 2.6155 cents, and that Postal Service witness Yorgey, in Docket No. MC2005-3,

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Response to VP/USPS-T36-2 continued

USPS-T-2 (see, e.g., p. 6 of Appendix A), used the figure of 2.6155 cents as the cost of flats beyond mail processing and carrier costs. If you do not confirm, please provide alternative add-on costs, identifying their source. Also, please update the cost of 2.6155 cents to the instant docket and FY 2008.

- j. Please confirm that the revenues on sheet 'Revenues @ TYBR Vols.' and the volumes on sheet 'Reclassified Comm. Pcs. & Lbs.' of your workbook file WPSTDREG.xls in USPS-LR-L-36 can be used to calculate a per-piece revenue for mixed ADC (machinable) flats, origin entered, of 50.08 cents. If you do not confirm, please provide a figure that you believe to be correct, and substitute it in the remaining parts of this interrogatory.
- k. Referring to the figures in parts a through k, as well as any corrected figures you may provide, please provide an explanation of the appropriateness of the high per-piece contribution for letters (19.42 cents) and the relatively lower per-piece contribution for flats (14.43 cents). Please include in your explanation all reasons why you believe it is appropriate to favor flats to this extent, at the expense of letters, including reasons of policy. For ease of reference, these figures are:

Mixed ADC (machinable)	Rate (cents) Postage/pc.	Cost (cents)	Per-piece Contribution	Implied Cost Coverage
Letters	29.2	9.784	19.42	298.45%
Flats	50.08	35.551	14.43	140.87%

- i. (i) Are these the costs on which you focused when, as suggested in your testimony at page 32, beginning on line 14, you: "selected piece and pound rates for the base piece"? (USPS-T-36, p. 32, l. 14.) If they are not, please provide the costs on which you focused.
- (ii) Based on these costs summarized in part k as well as on any costs you may provide, please explain how consideration of these costs led you to a "base piece rate" for mixed ADC letters of 14.0 cents.

RESPONSE

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.

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Response to VP/USPS-T36-2 continued

- d. Redirected to witness Talmo (USPS-T-27).
- e. I am unable to confirm this calculation. I have seen no study that provides comparable numbers for the test year and that are consistent with the cost data confirmed in subparts (a) and (b), above. I would also note that there is a potential problem with using an average price estimate for all Standard Mail letters to develop unit costs for a highly de-averaged rate category. I do not know how much the unit costs, exclusive of mail processing and carrier costs, for a non-drop-shipped, minimally presorted letter might vary from the average unit cost, assuming one were available.
- f. Confirmed.
- g. Confirmed.
- h. Confirmed.
- i. Redirected to witness Talmo (USPS-T-27).
- j. I can confirm that the approach and the per-piece revenue calculation are correct for Mixed ADC Nonautomation origin entered flats.
- k. For the reasons cited in my responses to subparts (e) and (j) above, I cannot confirm the accuracy or appropriateness of the total unit cost estimates in this table. Nevertheless, even if one were to accept these data as "ballpark estimates" for the sake of argument, they do not indicate that my proposed pricing for flats and letters is inappropriate or that it "favors" flats over letters. Simply consulting the Percent Rate Changes sheet in my WP-STDREG.XLS workbook will demonstrate this fact. Mixed AADC Presorted (Nonauto) Machinable letter prices are proposed

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Response to VP/USPS-T36-2 continued

to increase from 1.5% to 3.5%, while I have proposed that comparable Mixed ADC flats receive increases in the 18-19% range. One would have to turn the meaning of the word "favor" on its head to claim that a rate proposal that asks flats mailers to pay percentage rate increases that are between five and eleven times the rate increases of comparable letters actually "favors" flats over letters.

- I. (i) No. As indicated in my testimony on page 32 and elsewhere, the cost information I used as reference points when developing my rate elements for base pieces came from witnesses Kelley (delivery cost information for all Standard Mail pieces), Miller (mail processing cost information for Standard Mail Regular nonletters and Standard Mail ECR parcel-shaped pieces), Abdirahman (mail processing cost information for Standard Mail Regular letters), and Talmo (mail processing information for Standard Mail ECR pieces). These cost data are shown in the Inputs spreadsheets in my WP-STDREG.XLS and WP-STDECR.XLS workbooks.
- (ii) Please see my responses to VP/USPS-T36-1, subparts (f), (g), (i) and (j).

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VP/USPS-T36-3.

Please refer to page 6 of your testimony, USPS-T-36, lines 23-25, where you say: "The Automation Basic rate category [of Standard Mail ECR and Nonprofit ECR letters] will be eliminated. I am assuming that these pieces will migrate to the Regular subclasses and pay the Automation 5-digit letter rates."

Please refer also to your Library Reference, USPS-LR-L-36, workbook WPSTDECR.xls, tab 'TYAR Commercial Pieces & Pounds,' cell I8, which contains the following formula for the TYAR volume of origin-entered basic letters weighing from 3.3 to 3.5 ounces (*i.e.*, heavy letters): "="+Comm. Piece-Pound Dist.-- BY 'I8/SUM('Comm. Piece-Pound Dist.-- BY '\$I8:\$L8)*Inputs!\$D42*'ECR Commercial BDs'\$H\$135/('ECR Commercial BDs'\$H\$23)".

- a. Please confirm that this formula means that (the TYAR volume of basic origin entered heavy letters) is equal to (the BY volume of basic heavy letters at all entry points) * (the BY proportion of basic heavy letters that are entered at an origin office) * (the TYAR to BY ratio of basic non-letters, piece rated and pound rates, all entry offices). If you do not confirm, please explain as a function of simple concepts and ratios what this formula means.
- b. Please explain why the growth in basic heavy letters between BY and TYAR should be equal to the corresponding growth in basic non-letters, piece rated and pound rated, all entry points.
- c. Please explain any definitional requirements that will be placed on basic letters in the Test Year, such as a requirement that they be machinable or automation compatible, or any other.
- d. Please reconcile the projection in cell I8 with your statement on page 6, both referenced above, that "these [automation Basic letters] will migrate to the Regular subclasses and pay the Automation 5-digit letter rates."
- e. Please explain how the projection in cell I8, referenced above, relates to the projection for automation Basic letters found in cell D39, tab 'Inputs,' of the same workbook.

RESPONSE:

- a. Confirmed.
- b. The model used by witness Thress (USPS-T-7) includes ECR Basic heavy letters with Basic Nonletters for forecasting purposes. I receive a single forecast for commercial ECR Basic Nonletters that I disaggregate to the various shapes (heavy letters, flats, parcels), entry levels (origin, DBMC, DSCF, DDU) and weight categories (piece-rated, pound rated) using base year values from billing determinants data. This means that the projected growth for ECR commercial

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Basic heavy letters will necessarily parallel the forecasted growth for all commercial Basic Nonletters.

- c. I understand that no changes in the mailing requirements for nonautomation ECR Basic letters are being planned at the present time. Nevertheless it should be borne in mind that mailing standards do change from time to time as conditions warrant.
- d. Please see the response to subpart (b). There are only about 4.0 million ECR Basic heavy letters in the test year. For analytical simplicity it was decided to keep these relatively few pieces together in ECR with other mail pieces that are forecasted as part of the same group. I recognize that this decision introduced a difference between the way ECR Basic heavy letters and ECR piece-rated Automation Basic letters (which are forecasted as a separate single group) are treated. In my view, my treatment of ECR Basic heavy letters does not introduce any material problems. For example, had I treated these pieces the same as piece-rated Automation Basic letters and assumed that 100% of heavy letters migrated to Standard Mail Regular 5-digit heavy letters, a rough calculation suggests that my projection of total Standard Mail revenue might have declined by less than \$50,000.
- e. It is not related. Please see my responses to subparts (b) and (d).

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VP/USPS-T36-4.

Please refer to your Library Reference, USPS-LR-L-36, workbook WP-STDECR.xls, tab 'TYAR Commercial Pieces & Pounds,' cell D10, which contains the following formula for the TYAR volume of piece-rated saturation letters entered at an origin office: "="+Comm. Piece-Pound Dist.-- BY '!D10/SUM('Comm. Piece-Pound Dist.— BY'!\$D10:\$G10)*Inputs!\$D41".

- a. Please confirm that this formula means that (the TYAR volume of piece-rated saturation letters entered at an origin office) is equal to (the TYAR volume of both piece-rated and pound-rated saturation letters entered at all entry points) * (the ratio for the BY of piece-rated saturation letters entered at an origin office to piece-rated saturation letters entered at all offices). If you do not confirm, please explain as a function of simple concepts and ratios what this formula means.
- b. Please explain why the TYAR volume of origin-entered piece-rated letters should be equal to an origin-entry proportion for piece-rated letters applied to a volume projection for piece-rated and pound-rated letters combined.

RESPONSE:

- a. Confirmed.
- b. The model used by witness Thress (USPS-T-7) includes ECR Saturation heavy letters with Saturation Nonletters for forecasting purposes. I receive a single forecast for commercial ECR Saturation Nonletters that I disaggregate to the various shapes (heavy letters, flats, parcels), entry levels (origin, DBMC, DSCF, DDU) and weight categories (piece-rated, pound rated) using base year values from billing determinants data. This means that the projected growth for ECR commercial Saturation heavy letters will necessarily parallel the forecasted growth for all commercial Saturation Nonletters.

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VP/USPS-T36-5.

In Commercial ECR Standard, please refer to the rates proposed at the minimum perpiece level for saturation **letters** of 17.2 cents (per piece) and for saturation **flats** of 18.2 cents, the former being required to be machinable and automation compatible. (See, e.g., Request, Attachment A, p. 19, Rate Schedule 322.)

- a. Please confirm that the mail processing cost for these saturation letters, shown in workbook LR-L-84.xls in USPS-LR-L-84, is 1.095 cents. If you do not confirm, please correct this cost and substitute your revised estimate in the remaining parts of this interrogatory, as appropriate.
- b. Please confirm that the carrier cost for these saturation letters, shown in workbook UDCModel.USPS.xls in USPS-LR-L-67, is 3.205 cents. If you do not confirm, please correct this cost and substitute your revised estimate in the remaining parts of this interrogatory, as appropriate.
- c. Please confirm that workbook LR-K-119.xls, tab 'Unit Costs,' in USPS-LR-K- 119, Docket No. R2005-1, showed the FY 2006 cost for all ECR letters, exclusive of mail processing and carrier costs, to be 0.2341 cents, and the corresponding cost for flats to be 0.8012 cents, and that Postal Service witness Yorgey, in Docket No. MC2005-3, USPS-T-2 (see, e.g., p. 4 of Appendix A, footnote 9), used the figures of 0.2341 cents and 0.8012 cents as the cost of letters and flats beyond mail processing and carrier costs. If you do not confirm, please provide alternative add-on costs, identifying their source. Also, please update the costs of 0.2341 cents and 0.8012 cents to FY 2008.
- d. Please confirm that the revenues on sheet 'Revenues @ TYBR Vols.' and the volumes on sheet 'TYBR Commercial Pieces & Pounds' of your workbook file WP-STDECR.xls in USPS-LR-L-36 can be used to calculate a per-piece revenue for saturation letters, origin entered, of 17.23 cents and for saturation flats, origin entered, of 19.66 cents. If you do not confirm, please provide a figure that you believe to be correct, and substitute it in the remaining parts of this interrogatory, as appropriate.
- e. Please confirm that the mail processing cost for saturation flats, shown in workbook LR-L-84.xls, tab 'Table 1,' in USPS-LR-L-84, is 1.599 cents. If you do not confirm, please correct this cost, or supply an alternative cost, and substitute your estimate in the following parts of this interrogatory, as appropriate, explaining its derivation.
- f. Please confirm that the carrier cost for saturation flats, shown in USPS-LR-L- 67, is 5.213 cents. If you do not confirm, please correct this cost, or supply an alternative cost, and substitute your estimate in the following parts of this interrogatory, as appropriate, explaining its derivation.
- g. Referring to the figures in parts a through f, as well as any corrected figures you may provide, please provide an explanation of the appropriateness of a per-piece contribution for letters of 12.696 cents and a somewhat smaller per-piece contribution for flats of 12.047 cents. Please include in your explanation all reasons why you believe it is appropriate for the per-piece contribution of saturation letters to be higher than the corresponding contribution of flats, including reasons of policy. For ease of reference, these figures are:

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Saturation	Revenue Per-piece (cents)	Per-piece Cost (cents)	Per-piece Contribution (cents)	Implied Cost Coverage
Letters	17.23	4.534	12.696	380.01%
Flats	19.66	7.613	12.047	258.24%

- h. Please refer to the cost figures and the per-piece contribution figures in part g, or to any corrected figures you provide.
- (i) Please explain the appropriateness of products with substantially different costs having approximately the same per-piece contributions.
- (ii) Please provide any examples you know of in the competitive private economy where a firm's higher-cost product, in this case 67.9 percent higher, makes the same or lower contribution as the lower-cost product.
- (iii) Please explain the nature of any competitive conditions that would lead to equilibria with these kinds of cost/contribution relationships.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Redirected to witness Talmo, USPS-T-27.
- d. The sheet titles in the question are believed to be misidentified. If the first sheet is understood to refer to "Revenues @ TYAR Vols." and the second sheet is understood to refer to "TYAR Commercial Pieces & Pounds" the calculations can be confirmed, with the qualification that the flats are pieces that are addressed on the piece and do not use DALs.
- e. Confirmed.
- f. Confirmed.
- g. The allocated costs in the table should be adjusted to reflect the updated cost estimates supplied by witness Talmo (USPS-T-27) in USPS-LR-L-135. With these updated cost allocations the "Per-piece cost" estimate for ECR Saturation origin-entered letters becomes 4.57 cents and the estimate for ECR Saturation origin-entered flats becomes 7.69 cents. Subtracting these values from the average per-

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piece revenue estimates for ECR Saturation origin-entered letters and flats yields estimates for "Per-piece contribution" for this group of letters of 12.66 cents and for this group of flats of 11.97 cents. I do not know whether pieced-together numbers like these can lead to appropriate measures of contribution comparable to the contribution measures developed using CRA data at the subclass level.

Nevertheless, I am willing to use them as reference points in responding to this question. With that caveat in mind, these "per-piece contribution" values do not seem at all inappropriate to me. There are several reasons for my view. First of all, the estimated "contributions" of the two groups of mail are fairly close to each other. Second, the contribution portion of a rate is designed to recover costs that are specifically not volume variable, and that are not attributable to any specific classification of mail. I see no reason why the sole fact that one group's or product's unit volume variable cost is higher than another's should mean that the first product must be required, for that reason alone, to make a higher unit contribution to the Postal Service's institutional costs. Third, the Postal Service has long asserted the obvious point that its customers pay rates, and not cost coverages. In developing these rates the Postal Service took into account, not only cost information, but also the existing rates for Saturation letters and flats, degree of mail preparation, market conditions, as well as historic rate relationships. The rates I am proposing reflect a balancing of these factors to reach what I believe is a fair and appropriate set of rates for ECR Saturation letters and flats. Fourth, and related to the previous point, in the proposed rates the Postal Service has widened the rate difference between what a Saturation letter will pay and what a comparably addressed flat will pay. Fifth, the analysis of "per-piece contribution" that forms the basis of this question is seriously flawed. It is flawed because it overlooks the important fact that my pricing proposals for Saturation flats also

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include a 1.5 cent per-piece surcharge for pieces that use detached address labels (DALs). Including the surcharge further widens the differential between what the Postal Service is asking ECR Saturation flats mailers and letter mailers to pay. Depending on what proportion of Saturation flats mailers use DALs, the "Per-piece revenue" and "Per-piece contribution" shown in the table (even as amended) would have to be revised. At some DAL usage level, the "Per-piece contribution" of flats actually exceeds the "Per-piece contribution" shown for letters.

- h. (i) Please see my response to subpart (g). As I stated in that response, pieced-together unit volume variable costs are not, or should not become, the sole driving factor in determining the "per-piece contributions." In MC95-1, the Postal Service and the Postal Rate Commission recognized the common characteristics of saturation-type advertising mail, and its distinctiveness from other mail types, when it established a separate subclass for ECR mail. It should not be surprising, then, that the unit contributions for pieces sharing these common characteristics would have similar "per-piece contributions."
- (ii) I am not privy to detailed per-piece cost data from competitive private sector businesses since this sort of information is considered strictly proprietary and highly confidential, so I am unable to answer this question.
- (iii) Please see my response to (h)(ii).

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VP/USPS-T36-6.

Please refer to your response to VP/USPS-T36-1(e). Within the context of the minimum-per-piece rate for basic letters in Regular Commercial Standard, you were asked how thinking about your "base piece rate" of \$0.140 was helpful to you in leading to the final minimum per-piece rate of \$0.292.

The first sentence of your response is: "Generally, by establishing piece and pound rates and applying these to both piece-rated pieces and piece-and-pound-rated pieces, consistency at the break point can be easily achieved."

- a. By "consistency at the break point," do you mean anything other than that an ordinary graph of per-piece postage vs. per-piece weight (with the former on the vertical axis and the latter on the horizontal axis) does not have a discontinuity at a weight equal to the break point? If you do, please explain with specificity what you mean by achieving consistency at the break point.
- b. If you want to avoid a discontinuity of the kind referenced in part a of this question, please confirm that in "establishing piece and pound rates," before you "apply" them, you have no choice but to honor the following equation: $\text{lb-rate} \cdot 3.3/16 + \text{piece-rate-for-lb-rated-pieces} = \text{minimum-per-piece-rate}$. If you do not confirm, please discuss your reasoning and explain the freedom you see yourself as having in selecting the "piece and pound rates." (Note: nothing in this question is meant to preclude normal rounding practices.)
- c. You say that by "applying" the various rate elements to the pieces involved, "consistency at the break point can be easily achieved."
 - (i) Please explain how "applying" the "piece and pound rates" helps you achieve consistency.
 - (ii) Please confirm that, in selecting the "piece and pound rates," unless you purposefully honor the equation presented in part b of this question, consistency cannot and will not be achieved. Please explain fully any non-confirmation.

RESPONSE:

- a. I mean that there will be no discontinuity in rates at the break point weight.
- b. Confirmed.
- c. (i) As can be seen from my workpapers, the minimum per piece rates for various rate categories were derived using the formula set forth in subpart (b) of the question. In so doing, consistency in the rates at the breakpoint weight is achieved.
(ii) Confirmed.

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VP/USPS-T36-7.

Please refer to your response to VP/USPS-T36-1(e). The second and final sentence of your response is: "While letter-shaped pieces having weights greater than the break point do not pay piece and pound rates in the way nonletter-shaped pieces do, the parallel rate element structure used to develop the letter rates is useful in facilitating comparison between the proposed rates for letters and those for nonletter-shaped pieces."

- a. Would you agree that, over the break point, the only difference between the rates for letters and nonletters is that letters pay a lower piece rate, one that is adjusted downward to reflect the lower costs of letters? If you agree, is this what you meant when you said these letters "do not pay piece and pound rates in the way nonletter-shaped pieces do"? If you disagree or mean something different, please explain how "the way" is different.
- b. By "parallel rate element structure," do you mean to refer generally to the fact that, when plotted on a graph, the line for letters is parallel to and lower than the line for nonletters? If you mean something else, please explain. (Note: for purposes of this question, a "line" can be horizontal and then begin trending upward, but cannot be a curve and cannot have a discontinuity; also, two lines are parallel if the vertical distance between them is constant.)
- c. (i) Please explain how you found the "parallel rate element structure ... useful in" comparing the rates for letters and nonletters.
(ii) Does this usefulness refer to anything other than that the vertical difference between the two lines noted in part b is the difference in rates between nonletters and letters of the same weight? If it does, please explain.
(iii) In your "comparison" of the rates for letters and nonletters, did you give any consideration to the costs of each? If you did, please point with specificity to the costs you examined and to the role they played in establishing the differences. If you did not, please explain why costs would not be a relevant consideration in any "comparison" of the rates for letters and nonletters.
- d. Please consider the subject of VP/USPS-T36-1, that you "have developed a rate design methodology that differs from the 'formula' approach in use (with modifications) since Docket No. R90-1." (USPS-T-36, p. 12, l. 26 to p. 13, l. 1.) Since you confirm in your response to part c of that interrogatory that you used a "key" formula of some length, and since it seems apparent that you honored a formulaic relationship between the various piece and pound rate elements, to avoid a discontinuity in the rates, is it the case, as far as the rates for letters and flats are concerned, that the only difference between your approach and the earlier formula approach is that you removed from direct recognition in your calculations the cost information relating to differences between letters and flats? If you see any other differences between the approaches, please identify what they are.

RESPONSE:

- a. I can confirm that automation letters weighing more than the break point (but not over 3.5 ounces) pay a piece rate that is adjusted downward by the difference

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between the minimum per piece charges for letters and flats. While this difference reflects to some extent the cost differences between letters and nonletters, that factor need not be the sole factor affecting the difference. Heavy letters do not simply pay a "letter piece rate" plus a "letter pound rate" the way heavy flats pay a "flats (or nonletters) piece rate" plus a "flats (or nonletters) pound rate." Heavy letters essentially pay flats (or nonletters) rates with a per-piece discount. That is the kind of difference I was referring to.

- b. I meant that I chose a piece rate element for letters and for flats and I chose a pound rate element for letters and for flats. Then, to determine the minimum per piece rate for letters I applied the formula described in subpart 6(b) above ; to determine the minimum per piece rate for flats, I also applied the formula described in subpart 6(b) also. As already discussed, the rates for heavy letters and for heavy flats are not determined in strictly parallel fashion.
- c. (i) Please see work sheet WP-STDREG-26 in library reference USPS-L-36.. In the upper left one can see the input items labeled "Basic Rate Per Piece" and "Rate Per Pound." These are the rate elements for the base piece(s) that I was referring to in my response. As can be seen in the worksheet, I set the Rate Per Pound the same for letters and flats. Using the Trace Dependents function in Excel, one can verify that the Basic Rate Per Piece and Rate Per Pound rate elements for Machinable Letters directly affect only the minimum per piece rate cells for letters. Because of this, I could set the Rate Per Pound rate element for Machinable Letters equal to the Rate Per Pound rate element for Flats, while still maintaining the ability to adjust the base letter piece's minimum per piece charge by varying the Basic Rate Per Piece rate element. With the Rate Per Pound rate elements for both letters and flats set equal to each other, it becomes an easy matter to

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compare the base prices of letters and flats simply by comparing their Basic Rate Per Piece rate elements.

(ii) Please see my response to (c)(i). While I did not use graphical images when thinking about this issue, I believe that the graphical representation expressed in the question captures the essence of what I was referring to in my response to VP/USPS-T36-1(e).

(iii) Yes. Please see the line items labeled Mail Processing + Delivery Costs in row 7 of WP-STDREG-26. As can be seen in that workpaper, these cost numbers do not tie directly to other cells in this workpaper. Nevertheless, as I described in my response to VP/USPS-T36-1, subparts (f) and (g), these cost data elements were used in selecting the rate elements that produced the letter and flat prices, including the price differences between letters and flats.

- d. My response should not be interpreted to imply that I did not use mathematical formulas in preparing my rate design. One need only casually examine my workpapers to see what formulas were used and how they were used. While I have not cataloged all of the differences in approach between my rate design model and the model formerly used, several readily come to mind.
- As suggested in the question, letters and flats are not tied together by explicit formulas. Rate elements are chosen separately for each shape category. In the former model, this separation based on shape was still present, but it was effectuated by calculating a letter-flat cost differential and then exogenously altering its impact through a passthrough formula.
 - Mathematically, in the former model, the (single) pound rate element was chosen and the (single) piece rate element falls out of the solution of a formula. In my approach, piece rate elements and pound rate elements are chosen for the different rate categories separately. This does not

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mean that these choices are unconstrained. There are obvious constraints, like meeting revenue requirements, and maintaining appropriate rate relationships that limit the possible choice combinations.

- Another difference is that the latest version of the former model required the user to develop an artificial apportionment of the combined Regular/Nonprofit costs between the two subclasses for the purposes of rate development. No splitting of costs between Regular and Nonprofit Regular is required in my approach.

There may be other differences between the two approaches. I have not attempted to catalog all differences. My view is that both models produce sets of rates that meet revenue requirements and other necessary rate relationships such as the Regular/Nonprofit Regular revenue per piece ratio. Both require judgmental inputs such as cost passthroughs and rate differentials to be developed. In my view, the focus should be on the assumptions made and rates produced, not on the rate design models which are only the tools to convert the assumptions and data into rates.

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VP/USPS-T36-8.

Please refer to your response to VP/USPS-T36-2(e), which presented you with a per piece postage for mixed ADC machinable letters of 29.2 cents (equal in this case to the applicable proposed minimum-per-piece rate) and a cost for the same letters of 9.784 cents (which would increase to 9.856 cents if the information provided by witness Talmo in USPSLR- L-135 were incorporated; see response of witness Talmo (USPS-T-27) to VP/USPS-T36- 2(d), redirected from witness Kiefer, May 30, 2006), yielding a per-piece contribution of 19.42 cents (19.34 cents using the revised cost) and an implied cost coverage of 298.45 percent (296.27 percent using the revised cost), and asked for your confirmation or that you provide revised figures.

In your response to VP/USPS-T36-2(e), you did not confirm or provide any revised figures, except for the update provided by witness Talmo. You provided a three-sentence explanation, as follows, with numbering provided in brackets: "[1] I have seen no study that provides comparable numbers for the test year and that are consistent with the cost data confirmed in subparts (a) and (b), above. [2] I would also note that there is a potential problem with using an average price estimate for all Standard Mail letters to develop unit costs for a highly de-averaged rate category. [3] I do not know how much the unit costs, exclusive of mail processing and carrier costs, for a non-drop-shipped, minimally presorted letter might vary from the average unit cost, assuming one were available."

- a. With regard to sentence 1:
 - (i) Please confirm that the cost data in parts a and b of the question are for the test year, as developed by other Postal Service witnesses. If you do not confirm, please describe the vintage of the costs at issue.
 - (ii) Please explain what "numbers" you would need for the test year that are consistent with the test year cost data in parts a and b.
 - (iii) Please explain the nature of the "consistency" that you think is important.
- b. With regard to sentence 2:
 - (i) Please explain where "an average price estimate for all Standard Mail letters" has been used "to develop unit costs for" any category of mail, whether de-averaged or not.
 - (ii) When you refer to "all Standard Mail letters," do you intend to include ECR and the Nonprofit categories? If not, please clarify the letters to which you are referring.
 - (iii) Please clarify the nature of the "potential problem" about which you are concerned, indicating the likely magnitude of the problem and how likely it is to exist.
- c. With regard to sentence 3:
 - (i) When you refer to "the unit costs, exclusive of mail processing and carrier costs," are you referring to the unit cost of 0.7135 cents shown in cell N11 of tab 'Unit Costs' of LR-L-135.xls in USPS-LR-L-135? If you are not, please clarify the unit costs to which you are referring.
 - (ii) Is it your suggestion that, if this unit cost were dropship-corrected, the comparison made would be in order and meaningful? If you are not suggesting this, please clarify what you mean.

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- (iii) Please confirm that of the cost of 0.7135 cents, only 0.40 cents is transportation costs. Please explain any failure to confirm.
- (iv) Please confirm that when dropship adjustments were made for ECR letters (see column I in tab 'Results' of workbook LR-L-84.xls in USPSLR- L-84), the adjustment ranged from 0.138 cents to 0.225 cents. Explain any failure to confirm.
- (v) Please provide any reason you have for believing that the difficulties to which you refer are significant in magnitude and would change in a meaningful way the picture painted by the per-piece contribution and implied cost coverage figures provided in the question.

RESPONSE:

- a. (i) Confirmed.
- (ii),(iii) The consistency I was referring to was that the non-delivery, non-mail processing cost data should be (1) for the same test year and, (2) based on the same set of assumptions (for example, labor cost assumptions, etc.) that underlie the R2006-1 test year cost estimates. Ideally, the numbers should be for the same level of disaggregation as the other components. For example, the remaining unit costs should be for Mixed AADC letters. It may be the case that the remaining unit costs do not vary appreciably as the mail category is disaggregated (e.g. from all letters to Mixed AADC letters). I do not know if this is the case or not. My response was designed to reflect caution in proceeding when I did not know whether it was appropriate to mix these data from different years or different levels of aggregation.
- b. (i) My response was overly broad. It should have read "...all Standard Mail Regular rate letters."
- (ii) Please see my response to (i), above. Since CRA costs are reported only for the combined Regular and Nonprofit Regular subclasses, my understanding is that the costs in question included both these subclasses. ECR and Nonprofit ECR would not be included.
- (iii) Average data for a large group may not always apply in a meaningful way to all members or subgroups of the larger group. In this particular instance, while I

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expressed reservations about applying average cost data for all letters to Mixed AADC letters, I think the total magnitude of the error introduced would be limited. That is why, for example, I indicated a willingness to accept the figures in the table as "ballpark estimates" to answer the substantive question in subpart (k) of VP/USPS-T36-1. With the updating of LR-K-119 as LR-L-135, the concerns about the likely size of error introduced were further reduced.

c. (i) Yes.

(ii) I was referring to all the ways that a Mixed AADC letter differs from the average Standard Mail Regular letter. Drop shipping is one difference. It may well be the only difference that is meaningful in this context. I don't know.

(iii) Confirmed.

(iv) Confirmed.

(v) Please see my response to VP/USPS-T36-2(k), as well as my response to subpart (b) of this question, above.

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VP/USPS-T36-9.

Please refer to the following paragraph in your testimony, USPS-T-36, beginning on line 27 of page 30.

My proposed rate design will also eliminate the Automation Basic rate category for letters. This rate is currently available only for mail sent to sites that do not receive letters from the plant in delivery point sequence. I understand that the Postal Service intends to further centralize the sequencing operations in plants to the greatest extent possible, reducing the dependence on automated or manual sorting in delivery units. (See witness McCrery, USPS-T-42, Section II, Part A, discussion of CSBCS equipment). In this light a two-track pricing scheme for automation letter mail is not warranted. With elimination of this rate I assume, for purposes of revenue estimation, that ECR and NECR Basic Automation letters will migrate to the Regular and Nonprofit Regular subclasses and pay the applicable Automation 5-digit rates. This is the likely rate paid by those letters that are addressed to areas for which the plant delivery point sequences letter mail. [USPS-T-36, p. 30, l. 27 to p. 31, l. 10.]

- a. Would you agree with the general proposition that the primary reason the Commission separated Regular and ECR into separate subclasses in Docket No. MC95-1 was to help recognize differences in demand, elasticity, market characteristics, density, and costs? If not, please explain any extent to which you disagree.
- b. In terms of demand, elasticity, market characteristics, density, costs, and any other factors you believe relevant, please explain any extent to which you find Basic Automation letters in ECR to be any less worthy to be in ECR and to receive any advantages associated with ECR than any other letters or flats in ECR.
- c. Please explain any consistency you see in having (i) fairly developed rates in ECR for Saturation Automation letters, and (ii) fairly developed rates in ECR for High-Density Automation letters, but (iii) no rates at all in ECR for Basic Automation letters. Do you believe any consistency you see is in line with the Postal Service's broad interest in developing and encouraging Automation letter mail?
- d. Did you attempt to develop a suitable rate in ECR for Basic Automation letters and have difficulties? If you did, please state what those difficulties were. If you did not, please explain why not.
- e. As a suitable rate for ECR Basic Automation letters, did you consider an approach such as rating them at 1 cent below the rate for 5-digit Automation letters in Regular, to provide some recognition to the factors listed in part a of this question? If you did, please explain that consideration and why you rejected it.
- f. Please present and discuss any analysis done by you or the Postal Service on the costs of ECR Basic Automation letters and Regular 5-digit Automation letters, and explain any differences in these costs.
- g. Do you agree that eliminating Basic Automation letters from ECR is a classification change rather than a rate change? Please explain any disagreement.

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RESPONSE to VP/USPS-T36-9:

- a. While the Commission did not specifically call these "the primary reason" and gave other reasons as well to support its decision, I agree that differences in demand, elasticity, market characteristics and costs appear to have been important factors in the Commission's decision.
- b. The decision to propose elimination of separate ECR Automation Basic rates was taken to support the Postal Service's move to further centralize the delivery point sequencing of automation compatible letter mail at plants. It was not taken because current Automation Basic letters were in any way deemed "unworthy." Under my rate proposals, these letters could still remain in ECR and receive any advantages that might accrue thereby, although they would not have a separate rate and would have to pay ECR Basic letter rates. For purposes of estimating revenue, I have assumed that current ECR Automation Basic letter mailers would rather choose to prepare and enter their automation compatible letters as Standard Mail Regular Automation 5-digit letters since the rates are significantly lower than ECR Basic letter rates. Although some mailers may move current Automation Basic letters to the Regular subclass, I do not believe that this move suggests that elimination of the ECR subclass for letters is warranted.
- c. Please see my response to subpart (b). The decision to propose to eliminate separate pricing for ECR Automation Basic letters is consistent with the Postal Service's operational plans to sequence as many automation compatible letters as possible at plants. Since Automation Basic rates are only available at a limited number of locations, Automation Basic is not a rate category that is strictly parallel to the High Density and Saturation rate categories. Considering all the factors, I don't see that identical rate treatment is a prerequisite. As indicated in my testimony and workpapers, I expect current ECR Automation Basic letter mailers to choose to shift their mail to another automation letter category. Therefore, my

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proposed pricing is in line with supporting the Postal Service's overall Standard Mail automation program, which includes centralized sequencing of automation letters. My proposed pricing for High Density and Saturation letters also supports the Postal Service's automation program since eligibility for these rate categories requires the mail pieces to be automation compatible (including barcoding).

Automation compatibility permits the Postal Service to easily sequence these mail pieces with other letter mail when operationally appropriate.

- d. No. My proposal was based on supporting operational decisions, not on difficulty in developing a rate.
- e. No.
- f. I did not perform any formal analysis that compares the costs of these two mail groups and I am unaware of any similar analysis performed by the Postal Service.
- g. I am not an attorney, so I can only answer this question from the perspective of a pricing Economist. The proposed change seems to me to have aspects of both a rate change and a classification change. Effectively Automation Basic letters that stay in ECR would have their rate changed and pay Basic letters rates. On the other hand, the proposed change is effected through a change in the DMCS. Whatever the legal categorization, I believe that this proposed change is a necessary change from the Postal Service's perspective to support centralized sequencing of letters wherever possible. In this light, as I indicated in my testimony, a two-track pricing system is no longer desirable. Because these pieces do have a relatively low-priced option available (moving to Standard Mail Regular 5-digit Automation rates), the change I am proposing does not unfairly target mail that currently pays Automation Basic rates.

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VP/USPS-T36-10.

Please refer to USPS-LR-L-36, workbooks WP-STDECR.xls and WP-STDREG.xls (hereinafter the "ECR" and the "REG" workbooks, respectively) and, unless otherwise specified, to the tab 'Revenues @ TYBR Vols.' in each workbook.

- a. Cell D7 in the ECR workbook does not appear to account for the volume of Commercial ECR Basic Automation letters, nor does cell D11 (5-digit Automation letters) in the REG workbook. A similar observation could be made for Nonprofit ECR Basic Automation letters (regarding cell D27 and cell D73, respectively). Please explain how Commercial ECR and Nonprofit ECR Basic Automation letters are accounted for on these TYBR sheets.
- b. On the ECR sheet, cells I7 through Q7 for the Commercial category and cells I27 through Q27 for the Nonprofit category appear to account for volumes for Basic letters weighing between 3.3 and 3.5 ounces per piece ("heavy letters"), even though heavy letters are required to be Automation letters. The same observation applies to the same cells on tab 'Revenues @ TYAR Vols.' Please explain the origin and the role of these volumes.
- c. Cells D58 and D59 in the ECR workbook and D137 and D138 in the REG workbook appear to account for fees on a TYBR basis. Please explain whether these fees should be TYAR fees adjusted to TYBR volume levels. If you do not believe they should, please discuss the apparent inconsistency in the sheet due to all **rates** being at proposed levels and all **fees** being at current levels.
- d. Please confirm that the positive volumes and revenues shown in cells D50 and D51 of the ECR workbook and cells D129 and D130 of the REG workbook are volume and revenue losses to ECR and Standard, respectively, attendant to existing Negotiated Service Agreements ("NSAs"). If you do not confirm, please explain what these entries represent.
- e. Corresponding to any volume and revenue losses associated with NSAs, as discussed in part d of this question, please explain where any cost adjustments are made and provide the level of such adjustments.
- f. Please outline all adjustments that have been made to (1) TYBR costs and (2) TYAR costs, including any for NSAs, as they are shown on the 'Inputs' tab of both subject workbooks.
- g. P.L. 106-384 requires that the average per-piece revenues of the Nonprofit categories be equal, as nearly as practicable, to 60 percent of the corresponding average per-piece revenues of the Commercial categories, based on TYBR volume projections.
 - (i) Please explain whether you believe this Nonprofit proportion should apply before or after fees are recognized.
 - (ii) Please provide your reasoning on how issues surrounding ECR Basic Automation letters and heavy letters, including those raised in earlier parts of this question, should be handled in calculating the Nonprofit proportion.
 - (iii) Please explain whether the revenues and volumes used in calculating the Nonprofit proportions should be before or after any adjustment for NSAs, and outline what (1) revenues and (2) volumes you used in your calculations.

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- h. Please explain whether any fees you use in the calculation of the Nonprofit proportion should be adjusted to align with your handling of the ECR Basic Automation letters.

RESPONSE to VP/USPS-T36-10:

- a. These volumes are not accounted for on the Revenues @ TYBR Vols. Worksheets. In the workbook for Standard Mail Regular, no Automation Basic volume is assumed to have migrated in the test year before rates. In the Standard Mail ECR workbook, while there is "before rates" Automation Basic volume in ECR, there is no new proposed "rate" to apply to it, other than the Basic letter rate. Using the Basic letter rate did not seem to make sense in light of the assumption that these pieces would migrate out of ECR.
- b. Please see my response to VP/USPS-T36-3, subpart (d). As I pointed out in that response, heavy letters were kept in the ECR model for analytical simplicity since they are forecast as part of ECR nonletters volume (unlike piece-rated Automation Basic letters which are forecast separately). Although heavy letters are required to be automation compatible, they could remain in ECR and pay heavy letter rates based on Basic flat and Basic letter rates via the well-known heavy letter rate formula. An alternative assumption would be that these pieces would migrate to Standard Mail Regular, like their minimum per-piece Automation Basic counterparts.

The role of these heavy letter pieces in the ECR version of the Revenues @ TYBR Vols. and Revenues @ TYAR Vols. worksheets is to estimate revenues. If they were assumed to migrate to Standard Mail Regular, both their revenue and volume would be removed from both of the ECR revenue estimation worksheets and would appear in the Standard Mail Regular TYAR revenue estimation worksheet. Since, the ECR Basic heavy letter volumes are relatively small, amounting to only about

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0.01% of ECR TYBR volumes (excluding piece-rated Automation Basic commercial pieces), assuming that they migrate would not have much impact on ECR average revenues.

- c. The correct fees should be the proposed fees using TYBR volumes. Witness Berkeley (USPS-T-39) informs me that the correct fees for Standard Mail using proposed rates and TYBR volumes are as follows (in thousands): Regular, \$63,654; Nonprofit Regular, \$29,866; ECR, \$33,971, Nonprofit ECR, \$6,479. Using these fee estimates, instead of the ones I used in the Revenues @ TYBR Vols. sheet in my ECR and Regular workbooks, would not materially change the nonprofit / commercial average unit revenue ratio.
- d. Confirmed.
- e. Redirected to witness Page (USPS-T-23).
- f. All of the adjustments to costs are fully reflected in the total cost numbers shown on the Inputs tabs in my workbooks. Besides adjustments for NSAs, I understand there were cost adjustments that reflect (i) mail mix changes between the base year and the test year and, (ii) the assumed migration of piece-rated ECR Automation Basic letters to Regular.
- g. (i) The ratio should include fees in both the numerator and the denominator.
(ii) My calculations exclude the migrating Automation Basic minimum per piece volumes, but leave the Basic heavy letter volumes in ECR. The reasoning was as follows:

Regular subclasses: Migrating minimum per piece ECR Automation Basic pieces and ECR Basic heavy letters were excluded from the calculation (at TYBR volumes) since they were not part of the Regular subclasses in the test year before rates.

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ECR subclasses: Migrating minimum per piece ECR Automation Basic pieces were excluded from the calculation since there was no appropriate rate in ECR to calculate their contribution to average revenue. Assuming that they would pay the Basic letter rate was not a reasonable alternative for such a large volume of letters in light of the migration assumption. ECR Basic heavy letters were assumed to stay in ECR and pay the Basic letter rate for purposes of analytical simplicity since they were few in number. This is consistent with the way I treated them for overall revenue estimation purposes. Please also see my response to part (b) above.

- (iii) The appropriate volumes and revenues for calculating the nonprofit-commercial ratio should include NSA adjustments. The reason why the adjustments were needed is that the NSAs in question were not reflected in the base year volumes, so their impacts were not then carried forward in the volume forecasts. Had these items been in the base year volume and revenue figures, no volume, cost or revenue adjustments would have been needed: the NSA impacts would have been in the total volume, revenue and cost projections. My calculations for the nonprofit-commercial average revenue ratio contained the NSA adjusted revenues and volumes, including fees. These calculations excluded volumes and revenues from pieces that were assumed to be migrating from ECR for the reasons discussed in my response to subpart (g)(ii) of this question.
- h. Yes, they should. Please see my response to subpart (g)(ii). My calculation of the nonprofit to commercial revenue per piece ratios for both Regular and ECR excluded the piece rated Automation Basic volume that I assumed would migrate. Since there was no migrated Automation Basic in the Regular subclasses' TYBR volumes, the fees for Regular and Nonprofit Regular subclasses presented in my response to subpart (c) would need no further adjustment to be consistent with my

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treatment of Automation Basic volumes. On the other hand, to be fully consistent with my NECR / ECR revenue per piece ratio, the ECR and NECR fees presented in part (c) would have to be adjusted by some amount to exclude fees associated with the migrating Automation Basic letter volume. If one were to take a simple percentage reduction in the fees based on the volume of ECR and NECR assumed to migrate, the "adjusted" fees would then be very close to the fees I originally used in my worksheets (i.e., the TYBR fees). On that basis I conclude that the adjustment suggested by the question would not have a material impact on the average revenue per piece ratio shown in my ECR workbook.

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VP/USPS-T36-11.

Please refer to USPS-LR-L-36, workbook WP-STDREG.xls, tab 'Proposed Rates,' cell F161, which contains the rate for Customized Market Mail.

- a. Please state what rule or convention you followed in selecting this rate.
- b. Please state whether this rule or convention is a change from the past.
- c. If this rule or convention is a change from the past, please state whether this change should be viewed as a classification change, and explain in detail your reasoning.

RESPONSE:

- a. The current rate was tied to the minimum rate a non-drop-shipped parcel would pay by using the RSS. In the proposed rate design, the minimum price for a parcel will rise significantly and, in my view, this rate is not a suitable reference price for CMM. For the purposes of proposing a price for CMM in this case, I chose a price that is the same as an origin-entered 5-digit presorted NFM . This procedure was followed in both the Regular and Nonprofit Regular subclasses.
- b. Yes. See my response to part (a).
- c. I am not an attorney, so I can only answer this question from the perspective of a pricing Economist. The proposed change seems to me to have aspects of both a rate change and a classification change. There is no change in the requirements or eligibility for CMM. Only the rate paid is proposed to change. On the other hand, the proposed rate change is effected through a change in the DMCS.

Whether or not this change is deemed a classification change, it meets the classification criteria, as did the original classification. CMM enhances the value as an advertising medium for Standard Mail, a classification that does not require a high degree of reliability and speed of delivery (criterion 4). CMM gives mailers the opportunity to enter advertising mail with unique and attractive shapes, thereby increasing the value of mail. This makes CMM desirable from the perspectives of both the Postal Service and mailers. My proposed change away from a price that is pegged to parcels is desirable since, as I point out in my testimony, CMM is unlike

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typical Standard Mail parcels in that it undergoes no upstream mail processing. On the other hand, CMM has a nonstandard shape which excludes it from processing it in the normal flats mail stream, making a price pegged to flats rates undesirable. The NFM price seemed a reasonable compromise between the two. The choice of the 5-digit rate as the reference point also desirably reflects the presorted nature of CMM (see criteria 2 and 5). The proposed change in reference pricing recognizes that CMM is not handled through the mail stream like parcels, while also recognizing the workshared nature of CMM. On the whole the proposed change is fair and equitable (criterion 1).

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VP/USPS-T36-12. Please refer to the discussion in your testimony concerning flats that will use the proposed NFM rate in Regular Standard, including page 5, beginning on line 13, page 15, beginning on line 17, and the section beginning on page 21, line 17.

- a. Is it possible to trace the origins of the pieces paying the proposed NFM rates and state what proportion of them came from one or another current rate category, such as one portion coming from automation flats and another portion coming from non-automation flats? If so, please provide the proportions.
- b. In view of your statement on page 5, line 13, that the "definitions of flats will be changed," please outline the requirements for a flat to use the proposed rates for the new non-automation flats category.
- c. Please explain the extent to which the proposed non-automation flats category will be, in effect, a category of machinable flats.
- d. In line with the new definition of flats, which may be a category of machinable flats (see part c), please identify the costs in your testimony or in library references providing costs that apply to the new non-automation flats category, including a discussion of how well the costs apply.

RESPONSE:

- a. Please see my worksheet WP-STDREG-9. I used these proportions to obtain my estimated volumes for NFM pieces from the forecasts of current nonletter rate categories.
- b. Redirected to the Postal Service.
- c. While the Postal Service expects that most of the pieces that will remain nonautomation flats will be machinable, there may be some that meet the nonautomation flats criteria but remain nonmachinable. I do not know what share of total nonautomation flats will be machinable or nonmachinable.
- d. The costs associated with nonautomation flats can be found in my Inputs worksheet in cells D125, D126, D127, D128 and D153. The costs in these cells are estimated unit costs for existing nonautomation flats. According to the redefinition matrix in my workpaper WP-STDREG-9, more than 89 percent of currently categorized nonautomation flats will continue to be categorized as nonautomation flats. How many of that 89 percent are machinable, I do not know. I do not know

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what impact, if any, the recategorization of the remaining 11 percent might have on the estimated unit costs for nonautomation flats.

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VP/USPS-T36-13. Please refer to your workbook WP-STDECR.xls in USPS-LR-L-36, tab 'Inputs,' cell D55.

- a. Please confirm that the source of the volume in the formula in subject cell is, essentially, ADVO-LR-1, Docket No. R2005-1, and that its entire basis for it is commercial volume. If you do not confirm, please describe the basis for the figure you use.
- b. Please provide the justification for applying the ratio in cell D55 to Nonprofit ECR volumes.

RESPONSE:

- a. I received the estimated number of DALs from witness Kelley (USPS-T-30).

Witness Kelley informs me that he derived the estimate of 4.6 billion DALs using ADVO-LR-1, Docket No. R2005-1 as a starting point. He also informs me that the 4.6 billion figure was his estimate for the base year, rather than the test year as I had formerly understood it. Applying this estimate to the base year Saturation nonletter volumes yields a DAL usage fraction of 41.42 percent, slightly higher than the 40.16 percent figure I used in my revenue calculations. The impact of using the higher estimate on Standard Mail revenues would not be substantial.
- b. The estimate I received from witness Kelley did not specify what proportion of the DALs was used with commercial volumes and what proportion was used with nonprofit volumes. At the time I received the estimate I thought it reasonable to prorate these DALs between the commercial and nonprofit subclasses based on applicable volumes. Even if one were to assign 100 percent of the DAL count (and the consequent surcharge revenue) to the commercial subclass, the nonprofit to commercial average revenue ratio would not change substantially.

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VP/USPS-T36-14. Please refer to your workbook WP-STDREG-R0621-POIR5-Q3-Resp.xls in USPS-LRL- 148, part of the Postal Service's response to Question 3 of POIR No. 5, and to cell D115 of tab 'Inputs.'

- a. Please confirm that the source of the cost in cell D115 is cell G44 on tab 'CRA ADJ UNIT COSTS' in workbook STD REG FLATS.xls in USPS-LR-L-43. If you do not confirm, please provide the correct source and describe the characteristics of the cost, e.g., whether it is a workshare-related cost.
- b. Please explain whether the cost in cell D115 is a workshare-related cost of the kind usually used to help set automation discounts.
- c. Please explain whether the cost in cell G20 of tab 'PRESORT LEVELS HELD CONSTANT' in the same USPS-LR-L-43 workbook is a workshare-related unit cost that would be appropriate for calculating passthroughs for automation flats.

RESPONSE:

- a. Confirmed.
- b. The referenced cost is a total mail processing unit cost, which is a sum of proportional unit cost (sometimes referred to as modeled worksharing related cost) and fixed unit cost (sometimes referred to as non-worksharing related cost) for nonautomation Mixed ADC flats. It is the same as the total mail processing unit cost for nonautomation Mixed ADC flats shown on page 75 of USPS-LR-L-43 (tab: PRESORT LEVELS HELD CONSTANT) that is used to help set automation discounts.
- c. The referenced cost is a total mail processing unit cost, which is a sum of proportional unit cost (sometimes referred to as modeled worksharing related cost) and fixed unit cost (sometimes referred to as non-worksharing related cost) for automation Mixed ADC flats having the same mail characteristics as nonautomation flats. It is used, in conjunction with the corresponding costs for nonautomation flats, to help set automation discounts. Therefore it is appropriate to use it in calculating the passthrough of cost differences between automation and nonautomation flats.

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VP/USPS-T36-15. Please refer to your workbook WP-STDREG-R0621-POIR5-Q3-Resp.xls in USPS-LRL- 148, part of the Postal Service response to Question 3 of POIR No. 5, and to cell D125 of tab 'Inputs.'

- a. Please confirm that the source of the cost in cell D125 is cell G36 on tab 'CRA ADJ UNIT COSTS' in workbook STD REG FLATS.xls in USPS-LR-L-43, and that this cost (1) is a total cost and not a workshare-related cost, and (2) is a weighted average of costs for machinable and non-machinable pieces. If you do not confirm, please state a different source and describe the characteristics of the cost, e.g., whether it is a workshare-related cost and whether it is a weighted average of machinable and non-machinable pieces.
- b. If you confirm part a, please explain (1) the applicability of a total cost instead of a workshare-related cost to calculating the passthrough between nonautomation flats and automation flats, and (2) whether a corresponding workshare-related cost is available.
- c. If you agree that the cost in cell D125 is a weighted average of costs for machinable and non-machinable flats, please explain whether a similar cost is available for machinable flats, which would correspond to the machinable flats category in the Regular rates you propose.

RESPONSE:

- a. It can be confirmed that the referenced cost is a total mail processing unit cost and therefore it is the sum of both proportional unit cost (sometimes referred to as modeled worksharing related cost) and fixed unit cost (sometimes referred to as non-worksharing related cost) for nonautomation Mixed ADC flats. It is therefore not identical to modeled worksharing related cost. It is a total unit cost for all pieces, both machinable and nonmachinable. As I understand it, it was not developed from separate unit costs for both machinable and nonmachinable pieces, so in that strict sense it is not a weighted average unit cost, although as a total unit cost it should be equivalent to a weighted average unit cost.
- b. (1) Given that the non-worksharing related unit cost (i.e. fixed unit cost) component of the total cost is the same for both automation and nonautomation flats (as can be readily seen in USPS-LR-L-43), the differences between the total costs is identical to the difference between the worksharing related unit cost components (i.e. proportional unit cost components). Hence using total unit costs gives the

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same result as using proportional unit cost (i.e. worksharing related unit cost)
differences for calculating passthroughs of cost differences.

(2) Please see my response to part (a).

- c. Please see my response to part (a). It is my understanding that separate costs are
not available for machinable and nonmachinable flats.

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VP/USPS-T36-16. Please refer to your workbook WP-STDREG-R0621-POIR5-Q3-Resp.xls in USPS-LRL- 148, part of the Postal Service response to Question 3 of POIR No. 5, and to cell D108 of tab 'Inputs.'

- a. Please confirm that the cost figure in cell D108 is a weighted average of the cost of machinable and non-machinable letters, at the mixed AADC level. If you do not confirm, please provide a specific source for this cost and outline its characteristics.
- b. Acknowledging your response to part a, please explain, one part at a time, with particularity, the applicability of the cost in cell D108 to:
 - (i) the cost used in cell X7 of tab 'Presort Tree' for machinable letters;
 - (ii) the cost used in cell V9 of tab 'Presort Tree' for machinable letters at the mixed AADC level;
 - (iii) the cost used in cell R9 of tab 'Presort Tree' for non-machinable letters at the mixed AADC level;
 - (iv) the cost used in cell P7 of tab 'Presort Tree' for non-machinable letters;
 - (v) the cost in cell D34 of tab 'Proposed Rates' for machinable letters at the mixed AADC level; and
 - (vi) the cost in cell D39 of tab 'Proposed Rates' for non-machinable letters at the mixed AADC level.

RESPONSE:

- a. Confirmed.
- b. (i) The cell D108 figure was used in cell X7 since it was also used to make the comparison between the Mixed AADC nonautomation machinable letters and AADC nonautomation machinable letters. The latter used the cost figure in cell D111 which was also not disaggregated by machinability. In that case I chose to maintain consistency within the branch of the tree rather than across the separate branches of the tree. (See my response to POIR5, Question 3(a).) While I could also have used two different figures for Mixed AADC nonautomation machinable letters, I chose to use the same cost data for both within and across branch comparisons. I recognize that other analysts may make different choices in this matter.
- (ii) Please see my response to subpart (i). I chose to use the data in D108 to maintain consistency within the nonautomation machinable letters branch of the tree. I recognize that other analysts may make different choices in this matter.

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(iii) Please see my responses to subparts (i) and (ii). I chose to use the figure in D108 in the comparison shown in cell R9 to maintain consistency with the nonmachinable letters branch of the tree. I recognize that other analysts may make different choices in this matter.

(iv) Please see my responses to subparts (i) and (iii). I chose to use the cell D108 figure to make the comparison between the Mixed ADC nonmachinable letters and Mixed ADC nonautomation flats to maintain consistency between the cost data used in the nonmachinable letters branch of the tree and across the separate branches of the tree. I recognize that other analysts may make different choices in this matter.

(v) The comparison in question used the figure in Inputs cells D108 and D111. As described in response to subpart (i), both of these cost data were consistent with each other since they both reflected weighted average costs. I used these figures as guides in developing my proposed pricing for nonautomation letters, specifically the presort price differential between Mixed AADC and AADC letters. I also used these same data as a guide in developing the presort component of the price differential between Mixed ADC and ADC presorted nonmachinable letters. In this way the pricing for both sets of letters used a consistent reference point for the presort differences proposed in the proposed rates.

(vi) Please see my responses to subpart (v). As discussed in that response, I used data in Inputs cells D108 and D111 together because they were consistent with each other in that they were both weighted average figures. Additional costs due specifically to nonmachinability were also used to guide the development of the prices for nonmachinable letters including the price differentials between Mixed ADC nonmachinable letters and ADC nonmachinable letters.

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VP/USPS-T36-17. Please refer to your workbook WP-STDREG-R0621-POIR5-Q3-Resp.xls in USPS-LRL- 148, part of the Postal Service's response to Question 3 of POIR No. 5, and to cell D115 of tab 'Inputs.'

- a. Please confirm that the cost figure in cell D115 is not a workshare-related cost. If you do not confirm, please provide a specific source for this cost and outline its characteristics.
- b. Acknowledging your answer to part a, please explain, one part at a time, with particularity, the applicability of the cost in cell D115 to:
 - (i) the cost used in cell P28 of tab 'Presort Tree' for automation flats at the mixed ADC level; and
 - (ii) the cost in cell D54 of tab 'Proposed Rates' for automation flats at the mixed ADC level.
- c. Would you agree that any concerns about the use of the cost in cell D115 would also apply to the costs in cells D116 through D118 of tab 'Inputs'? Please explain if you do not agree.

RESPONSE:

- a. Please see my responses to VP/USPS-T36-14(a) and (b). Since it includes both a worksharing related unit cost and a non-worksharing related unit cost it is not identically a worksharing related cost.
- b. (i) The cost in cell D115 is used in cell P28 of the Presort Tree worksheet, along with the cost in cell D116 (from the Inputs sheet), to establish differences in mail processing unit costs between Mixed ADC automation flats and ADC automation flats. The difference between the figures in D115 and D116 shows the difference in unit mail processing costs between these two presort levels and is appropriate to use to show how much of the cost difference is reflected in the proposed rate differential (i.e. the passthrough) which is the figure reported in cell P28.
 (ii) The cost in cell D115 is used in cell D54 of the Proposed Rates worksheet, along with the cost in cell D116 (from the Inputs sheet), to establish differences in mail processing unit costs between Mixed ADC automation flats and ADC automation flats. The difference between the figures in D115 and D116 is appropriate to use to help establish the proposed rate differential between these two presort levels.

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- c. My view is that any "concerns" about the use of the cost in D115 in cells P28 of the Presort Tree worksheet and D54 of the Proposed Rates worksheet due to these costs having a fixed (i.e. non-worksharing related) component are unfounded. That view also applies to similar uses of the costs in cells D116 through D118 of the Inputs worksheet.

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VP/USPS-T36-18. Please refer to your response to Question 3 of POIR No. 5, and the included workbook WP-STDREG-R0621-POIR-Q3-Resp.xls in USPS-LR-L-148. All cell references in this question beginning with D will be to tab 'Inputs' and all other cell references will be to tab 'Presort Tree,' unless otherwise specified.

- a. In the presort tree you provided, you did not show a comparison between machinable letters and machinable flats (which seems to be an appropriate name for your category of "Nonautomation Flats"). Please explain whether you believe the relationship between machinable letters and machinable flats to be a key relationship, each allowing corresponding automation categories to be a step further removed, as such removal would be suggested by notions of worksharing.
- b. Drawing on the costs you show in cell P7 for machinable flats, do you agree that the cost of machinable flats is 32.934 cents (calculated by adding the costs in cell D125 and in cell D153)? If you do not agree, please present an improved cost estimate for machinable flats.
- c. Do you agree that the cost of machinable letters equals cell D151 (3.596 cents) plus cell D109 (5.546 cents), which sums to 9.142 cents? If you do not agree, please present an improved cost estimate for machinable letters.
- d. Using the figures in parts b and c, or others you supply, do you agree that the cost of machinable flats is 23.792 cents more than the cost of machinable letters, but that the rate you propose for machinable flats is only 13.9 cents more than the rate for machinable letters, indicating a passthrough of 58.4 percent? If you do not agree, please present improved costs and a corrected passthrough.
- e. Do you agree that rates set in this way imply a substantially higher per-piece contribution from letters than from flats, calculated in the same way as the contributions in the testimony of Postal Service witness Michelle K. Yorgey (USPS-T-2) as developed on pages 2 through 6 of Appendix A, in Docket No. MC2005-3? If you do not agree, please present your own quantitative analysis of the relative contributions of machinable letters and flats as they would exist under the rates you propose.
- f. In terms of economics and fairness and any other ratesetting principles you wish to suggest, please discuss the advocacy of requiring substantially larger perpiece contributions from letters than from flats.

RESPONSE:

- a. In developing presort trees in response to the Commission's request in POIR5, I used a slightly modified version of one of the two tree structures proposed by the Commission. I assume that either or both of the models proposed by the Commission contained all of the relationships the Commission believed to be key relationships. Neither of the proposed models identified the nonautomation flat-nonautomation machinable letter relationships as key relationships. In my

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response to POIR5, question 3(a), I stated my opinion that the key relationships were those within each branch of the tree, rather than those that go across the branches.

- b. Please see my response to VP/USPS-T36-12(d), in particular my assertion that I do not know the proportion of machinable flats in the nonautomation flats category after recategorization. I can confirm that the total mail processing and delivery costs I used in developing rates for origin-entered Mixed ADC nonautomation flats was 32.934 cents, calculated by adding the mail processing and delivery costs in D125 and D153, respectively.
- c. I can confirm that the total mail processing plus delivery cost of an origin-entered Mixed AADC nonautomation machinable letter is 9.142 cents, as shown in cell D7 of my workpaper WP-STDREG-26, obtained by adding the mail processing and delivery costs in Inputs cells D109 and D151, respectively.
- d. Please see my response to VP/USPS-T36-12(d), in particular my assertion that I do not know the proportion of machinable flats in the nonautomation flats category after recategorization. I can confirm that the mail processing and delivery cost total for an origin entered Mixed ADC nonautomation flat is 23.792 cents higher than the mail processing plus delivery cost total for an origin entered Mixed AADC machinable nonautomation letter. I can confirm that the price I propose for origin entered Mixed ADC nonautomation flats is 13.9 cents higher than the price I propose for origin entered Mixed AADC nonautomation machinable letters. I can confirm that the rates I propose result in a passthrough of 58.4 percent of the cost difference between the two pieces in question.
- e. I have reviewed the pages of witness Yorgey's testimony cited in the question and I do not see any calculations of per-piece contributions.

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- f. I can only answer this question as a hypothetical since, as I have discussed previously (in response to VP/USPS-T36-5(g)) "I do not know whether pieced-together numbers like these can lead to appropriate measures of contribution comparable to the contribution measures developed using CRA data at the subclass level." The Postal Service has maintained in the past and continues to maintain that the appropriate focus is on rates, not per-piece contributions. Mailers pay rates, not contributions. The rates I am advocating for nonautomation machinable letters and nonautomation flats, to take the two specific categories that are the subject of this interrogatory, are fair and reasonable, regardless of whether one can demonstrate that the unit contribution of these letters are higher than the flats or not. One need only look at my worksheet WP-STDREG-27 to appreciate the reasonableness of the rates I am advocating. The maximum rate increase I am proposing for a nonautomation machinable Regular subclass letter is 3.5 percent. This is less than one-third the subclass average increase, measured at constant volume. In contrast, the minimum rate increase I have proposed for minimum per piece-rated nonautomation flats is 9.2 percent. It is clear from examining the rate changes in WP-STDREG-27 that my proposed pricing will increase the rate differential between letters and flats and narrow any "contribution gap" that might exist, when compared to equal percentage rate increases. The Postal Service is not oblivious to the cost differentials implied by part (d) of this question and, while I am not willing to concede that these numbers can be used to accurately infer total unit contributions at the most detailed rate category level, I believe that my pricing proposals fairly respond to the cost differences, thereby balancing interests of sending appropriate economic price signals with the goals of reasonable price changes.

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VP/USPS-T36-20. This question seeks to clarify aspects of your response to VP/USPS-T36-10(b), in which you discuss how you handled heavy letters in ECR.

- a. Please confirm whether the following statements properly summarize the path you took. If you do not confirm, please explain.
 - (i) Heavy letters must be automation compatible, so basic (non-automation) letters cannot be heavy letters.
 - (ii) Automation basic letters, which are restricted to certain destinations, can be heavy letters, because of their automation compatibility.
 - (iii) Most automation basic letters weigh from 0 to 3.3 ounces, but a few weigh from 3.3 to 3.5 ounces.
 - (iv) You assumed that the automation basic letters weighing from 0 to 3.3 ounces would migrate to 5-digit Regular but that the automation basic letters weighing from 3.3 to 3.5 ounces would stay in ECR.
 - (v) For the automation basic heavy letters that stay in ECR, you show them in your spreadsheets on the same line with basic (non-automation) letters.
- b. Are the cost adjustments for the shift of automation basic letters to 5-digit Regular consistent with the path you took? If not, please explain why not.

RESPONSE:

- a. I can confirm that the statements (i) to (v) are true statements, although I am not sure that they describe the "path" of thinking I followed. As I stated in the response to VP/USPS-T36-10(b), my approach was one of analytical simplicity, since the volume projections for the 0.0 to 3.3 ounce Automation Basic letters were made as a distinct group, separate from the projections for the 3.3 to 3.5 ounce automation Basic heavy letters, which were forecast as part of Basic nonletters.
- b. Yes.

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VP/USPS-T23-2.

Please refer to the final adjustments you show for the ECR subclass in USPS-LR-L-59, workbook Final Adjustments2008-USPS.xls, sheet 'Total' at cells E104 through G104, and to the statement of witness Kiefer, USPS-T-36, page 32, footnote 15, that: "For revenue calculation purposes, I have assumed that 50% of current DAL mail will be addressed on the piece in the future."

- a. Did you or any other Postal Service witness make an adjustment to ECR costs for a shift in the Test Year to addressed pieces instead of DAL pieces?
- b. If you, or some other witness, made such an adjustment, please provide the details of the adjustment, including: (i) a specific reference to where the adjustment is made; (ii) the cost (and its source) used to make the adjustment; and (iii) the volume used to make the adjustment.
- c. If such an adjustment was not made, please explain why the adjustment was not made, including the rationale for not making it.
- d. If such an adjustment was not made, but is needed, in the opinion of you or the Postal Service, please indicate how and where the adjustment should be made, including cost and volume information.

RESPONSE:

- a. No.
- b. Not applicable.
- c-d. For Standard Mail revenue estimation purposes I assumed that some mailers would change their behavior to avoid the DAL surcharge. To be consistent with my assumption, a corresponding cost adjustment would have been an appropriate tool to better develop appropriate net revenue projections. I understand that the Postal Service has not done any studies of the net costs of DALs that would produce a reliable estimate of the total cost impact of assuming a 50% reduction in DAL usage. For this reason, and to ensure consistency between revenue and cost assumptions for net revenue estimation purposes, I am changing my assumption on DAL usage. To be consistent with the Postal Service's estimate of test year costs, I will assume no change in mailer behavior. All mail currently addressed using DALs will continue to use DALs and will pay the surcharge. With this change in my assumptions, no cost adjustment is necessary. I will revise my testimony and

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workpapers to show approximately \$33 million in additional revenue for Standard Mail resulting from this updated assumption.

While it is reasonable to assume that some mailers will, in fact, change their behavior, I do not have any studies to support any specific nonzero reduction in DAL usage. Nor does the Postal Service have any estimates of cost impacts for any nonzero reduction. By assuming no change in mailer behavior with respect to DALs between the TYBR and TYAR, consistency between cost and revenue projections can be ensured. If, as might be expected, some mailers do change their behavior and switch from using DALs, it is reasonable to expect there will be both revenue and cost changes that will offset each other to some unknown extent. The impact on net revenue might therefore be either higher or lower than the net-revenue-neutral result that is implicit in the assumption of unchanged mailer behavior.

1 CHAIRMAN OMAS: There is also a response to
2 the following Presiding Officer's Information Requests
3 that I would like to enter into the evidentiary record
4 at this time. It is POIR No. 7, Question 9.

5 I'm handing it to the reporter. Thank you.

6 Mr. Kiefer, if you were asked to respond
7 orally to these questions here today, would your
8 answers be the same as those you provided in writing?

9 THE WITNESS: Yes, they would.

10 CHAIRMAN OMAS: I have just provided the
11 copies of the answers to the reporter and direct that
12 it be admitted into evidence and transcribed.

13 (The document referred to was
14 marked for identification as
15 Exhibit No. POIR No. 7,
16 Question 9 and was received
17 in evidence.)

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RESPONSE OF U. S. POSTAL SERVICE WITNESS KIEFER (USPS-T-36) TO
PRESIDING OFFICER'S INFORMATION REQUEST (POIR) No. 7, QUESTION 9.

- 9 Please refer to USPS LR-L-36, ECR rate design worksheets.
- a. Please explain why the pound formula was used for the high density letter rate. Confirm that using this formula results in a presort discount for high density letters of 4.3 cents rather than the 3.4 cents stated as the rate differential.
 - b. Please explain in detail how the difference in the pound rate for letters and non-letters was calculated.

RESPONSE

- a. Usually I used the piece and pound formula to determine the price for the most expensive piece in a category, for example, the Basic density tier. In the case of ECR letters, I followed the Postal Service's past practice of exogenously setting the rates for Basic letters equal to the corresponding rates for Basic flats. This was done, as in the past, to support the Postal Service's automation program by giving mailers a price incentive to prepare automation compatible letters, rather than smaller carrier-route bundles of letters. Because the Basic letter rates were not set separately from the Basic flat rates by using the piece-pound formula (with the weight set at the breakpoint weight), setting the High Density letter rates by taking a discount off the Basic letter rates would be equivalent to making the High Density letter rates discounted Basic flat rates. Instead, I chose to develop a conceptual "base price" for ECR letters using the per-piece and per-pound rate elements shown in cells D7 and D8 of WP-STDECR-16, and then take the discount off that "base price." This can be seen by inspecting the formulas for the High Density letters rates contained in cells H26 through J26 of WP-STDECR-16. The letter rate elements apply only to the proposed pricing for ECR minimum per piece-rated letters. Therefore, using the formula served only as a tool to effect the choice of High Density (and Saturation) letter prices. The rate differential of 3.4 cents refers to the difference between the conceptual "base price" for ECR letters. The actual

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difference between the High Density letter prices and the ECR Basic letters price (i.e. Basic flats price) is 4.3 cents.

- b. No formula was used to determine this rate element. My pound rate elements for letters and flats started out the same (see also my response to VP/USPS-T36-7(b) and 7(c)(i)) but the pound rate element for flats was adjusted over the course of numerous iterations to achieve the ECR target revenue while maintaining appropriate rate changes and rate relationships. Since the piece and pound rate elements for letters are only used to develop rates for minimum per piece-rated letters, the absolute value of the pound rate element, taken by itself, has no special importance. It could easily have been set equal to the flats pound rate element and the piece rate element adjusted to achieve the same prices I am proposing, as was done for Standard Mail Regular. In the end, my view is that the mathematical mechanisms I used to develop the proposed rates are of lesser importance than the rates themselves. I believe that the proposed letter rates are reasonable and appropriate within the context of this case.

1 CHAIRMAN OMAS: Is there any additional
2 written cross-examination for Witness Kiefer?

3 (No response.)

4 CHAIRMAN OMAS: This then brings us to oral
5 cross-examination.

6 Five participants have requested oral cross-
7 examination: The American Postal Workers Union,
8 AFL-CIO; the Association of Postal Commerce and
9 Mailing and Fulfillment Service Association; Newspaper
10 Association of America; Parcel Shippers Association;
11 and Valpak Direct Marketing Systems, Inc. and Valpak
12 Dealers Association, Inc.

13 Is there any additional participants who
14 wish to cross-examine Witness Kiefer?

15 (No response.)

16 CHAIRMAN OMAS: At this point, Mr. Anderson?

17 MS. WOOD: It will be Ms. Wood.

18 CHAIRMAN OMAS: Ms. Wood with the AFL-CIO.

19 MS. WOOD: Mr. Chairman, we have no
20 questions at this time.

21 CHAIRMAN OMAS: Thank you, Ms. Wood.

22 Mr. Volner?

23 MR. VOLNER: Regrettably, Mr. Chairman, we
24 do have some cross-examination questions.

25 CHAIRMAN OMAS: I'm not surprised.

1 CROSS-EXAMINATION

2 BY MR. VOLNER:

3 Q Mr. Kiefer, I'm Ian Volner.

4 A Good morning.

5 Q We are here today on behalf of the
6 Association for Postal Commerce or PostCom and MFSA,
7 and if you give me two seconds to get this stuff out I
8 will try to be quick.

9 Could you turn to page 25 of your testimony,
10 please? I want to try to get some understanding of
11 the interaction between some of the library
12 references.

13 You say that you used Library Reference 13
14 to "recategorize test year non-letter volumes into my
15 proposed rate categories." Let me start with making
16 sure that I understand what you mean by recategorize.

17 Would you agree that under the current rate
18 structure there are basically two categories within
19 standard regular mail -- letters, flats, and then
20 there are some pieces that are treated as flats but
21 are subject to a surcharge?

22 A There are two main categories, the letters
23 and non-letters. As you say, there's a subject of the
24 non-letters that is subject to a residual shape
25 surcharge.

1 One could conceive of those as a separate
2 category or just consider them -- they're generally
3 just considered non-letters.

4 Q And under the rate structure that you've
5 proposed in this case we would end up with what you
6 would consider four categories? Am I correct about
7 that?

8 A You would have letters, flats, parcels and
9 what is described in my testimony and in some of the
10 worksheets as hybrid pieces, but we have been more
11 recently referring to them as NFMs or non-flat
12 machineable pieces.

13 Q Okay. There are two discrete -- arguably
14 discrete -- types of mail within that NFM, are there
15 are not, hybrid flats and hybrid parcels?

16 A Yes. One could distinguish them by physical
17 characteristics.

18 Q Okay. Now to go back then for a moment, you
19 say you used Library Reference 33 to recategorize the
20 test year non-letter volumes, and basically I take
21 that to mean that what you did was you took the study
22 that had been done in Library Reference 33 to put the
23 mail into these new four categories or pots. Is that
24 correct?

25 A I want to clarify. There may have been

1 other categories, but in general what we did was we
2 took the non-letters and we divided them among the new
3 categories, yes. We have the automation flats, non-
4 automation flats, parcels -- I believe there might
5 have been machineable and non-machineable -- and then
6 the hybrid flats and hybrid parcels.

7 Depending on how you want to look at it, it
8 may be a different number than four.

9 Q Okay. But the point of my inquiry is you
10 say you used Library Reference 33. Does that mean
11 that whatever assumptions or judgments were made in
12 the categorization of Library Reference 33, you did
13 not second guess them or did not change them?

14 A I didn't change them.

15 Q At all?

16 A No.

17 Q In Library Reference 68 you say that you
18 developed the base year volumes using these new
19 categories. Is that correct?

20 A That's correct.

21 Q And that was the way in which you used
22 Library Reference 33? You assumed whatever
23 assumptions were embedded and then deployed them in
24 the base year?

25 A Perhaps a little bit of background. I

1 actually did that in order to provide a mechanism for
2 the forecast to translate from the billing
3 determinants data in the base year into the new
4 categories so that we would be able to true up the
5 categories that were forecast by Witness Thress to the
6 categories I was using.

7 Again, I used the same splits. In other
8 words, the splits that were used, that were applied to
9 the base year, were also applied in the test year.

10 Q That's very helpful. Witness Thress,
11 according to one of the notes on one of the library
12 references, in turn gave you some volume test year
13 after rate volume numbers, didn't he?

14 A Yes, he did.

15 Q And you took those and did what with them?

16 A I used his forecasted categories, and then I
17 divided them using the splits which were obtained
18 ultimately from Library Reference 33 into the various
19 rate categories for which I had proposed rates and
20 then multiplied the volumes, test year after rate
21 volumes, by the proposed rates to come up with the
22 projected revenues after rate.

23 Q So Witness Thress did not give you volumes
24 for the categories? You had to create the volumes for
25 the categories from the information that he gave you?

1 A I had to do all of them, yes.

2 Q Okay.

3 A Yes.

4 Q And again you made no assumptions as to
5 changes with respect to the proportions shown from
6 Library Reference 33?

7 A Right. I accepted. I didn't change the
8 proportions from Library Reference 33.

9 Q Now, one of the things that gets interesting
10 about these new four categories, of course, is the
11 definitions.

12 Would you agree that we really don't have
13 final definitions and that will not happen until the
14 Postal Service proposes rules and adopts rules about
15 final definitions?

16 A Well, the Postal Service has a process where
17 it examines various alternatives and then proposes
18 rules, takes comments from mailers and allows mailer
19 input and then comes up with the final rules so that
20 is the process as I understand it.

21 When it promulgates the proposed rule we
22 will not then have the final rule, but after mailer
23 input we'll have the final rule.

24 Q But until the final rules are promulgated,
25 we really don't know exactly what is a standard

1 regular parcel or a standard regular hybrid, do we?

2 A We do not know exactly, although I believe
3 that there have been some efforts made by the Postal
4 Service to communicate some general principles.

5 Q I understand that, but what I'm interested
6 in are the efforts that you made to derive the
7 revenues within the new categories.

8 Let me suggest that if you could would you
9 turn to Parcel Shippers Association Interrogatory 7
10 and your answer?

11 A I have it.

12 Q Is your understanding and the way in which
13 you developed the revenue projections and rates for
14 this standard regular, did you treat all pieces that
15 are subject to the residual shape surcharge as
16 parcels?

17 A I believe that the recategorization matrix
18 did have all of the current parcel items translated to
19 the parcels category.

20 Q All pieces that were captured by the billing
21 determinants as subject to the residual shape
22 surcharge were treated as parcels?

23 A That's my recollection.

24 Q Okay. You go on to say in your response to
25 PSA-7, and there are two things that have me puzzled.

1 You say there's an unknown number of standard mail
2 pieces that have parcel characteristics, but are not
3 identified as such in the RPW, revenue piece weight
4 report.

5 A Right.

6 Q Are there pieces in your development of the
7 volumes for the new parcel category that were not
8 subject to the residual shape surcharge?

9 A I believe that the recategorization matrix
10 had a few items that fit that category. In other
11 words, they were not RSS pieces today, but would be
12 counted as parcels.

13 Q And they were not RSS pieces because they
14 met the dimensions of a flat and were being run on
15 flat sorting equipment?

16 A I can't say that with certainty because
17 there may be some that were translated from the non-
18 automation flats category into parcels. The matrix is
19 shown I believe in my Workpaper No. 9.

20 I do not have it in memory, but I know that
21 there are some pieces, a small number of pieces, from
22 the non-RSS category today that would be translated
23 into the parcel category.

24 Q There was another reference in the billing
25 determinants part of Library Reference 68. There seem

1 to be some pieces that the billing determinants
2 characterized as subject to residual shape surcharge,
3 but paid first class rates. Can you tell me what that
4 was about?

5 A There are certain pieces in standard mail.
6 See, standard mail does not have any single piece rate
7 so that on occasion there may be a few residual
8 pieces, and I say residual not in the sense of
9 residual shape surcharge, but pieces which do not meet
10 let's say the presort categories, et cetera.

11 Since there is no single piece rates for
12 these pieces to fall back to they actually are charged
13 first class mail rates if they weigh under 13 ounces
14 and Priority Mail rates if they're more than that.

15 Q And how did you treat those for purposes of
16 computing the volume of standard regular parcels?

17 A I believe that there's a small number. I
18 believe that I just treated that as a proportional
19 ratio. In other words --

20 Q You excluded them or included them?

21 A Could you repeat the precise question?

22 Q The question is since they're paying first
23 class rates, are they being treated for revenue
24 purposes in said amount as standard mail or first
25 class mail?

1 A For purposes of revenue calculation I don't
2 think that -- what I did was I got the average
3 increase in the weights from the first class and the
4 Priority Mail witnesses, and then I just
5 proportionately increased the test year before rates
6 number, the revenue from the test year before rates
7 pieces by the proportional increase that would be
8 proposed in the first class.

9 Q In first class?

10 A So in other words this is a very small
11 amount, and it's sort of treated as a side calculation
12 for the purposes of estimating revenue.

13 Q Let me put it a slightly different way. In
14 your response to PSA-7 at the very beginning you refer
15 to parcel shaped standard mail pieces. Later on you
16 say an unknown number of standard mail pieces that
17 have parcel characteristics.

18 Is there a difference in those two terms in
19 the way you developed the revenue?

20 A Are we talking about the test year after
21 rates revenue, or are we talking about the test year
22 before rates revenue?

23 Q Does it make a difference?

24 A Well, the point that I was trying to make in
25 my response to PSA-7 was that under our current rules

1 certain parcel shaped pieces, if they meet certain
2 limitations, can pay rates as automation flats.

3 In the test year before rates revenue
4 estimation they would be treated as -- the revenue
5 from them would be treated as if it were at the
6 automation flats rate. In the after rates those
7 pieces would be -- it depends, but again we would
8 recategorize. Let's see. Those pieces that would be
9 recategorized as NFMs would pay the NFM charges.

10 Q So parcel shaped does not mean parcel. It
11 could mean NFM?

12 A That's correct.

13 Q Okay. And the rates that you propose for
14 parcels are not the same as the rates you propose for
15 NFMs?

16 A That's correct.

17 Q And the volumes that you've developed from
18 Witness Thress are not the same for parcels as they
19 are for NFMs?

20 A There are separate parcels. I'm sorry.
21 There are separate volumes, yes.

22 I mean, I received the forecast for various
23 categories of non-letters from Witness Thress. Using
24 the three definitions of the categorization matrix
25 which I received from Witness Loetscher, I then split

1 them into these various categories.

2 As you know, I proposed rates for parcels
3 and I proposed rates for NFMs. I multiplied the
4 parcels by the parcels rate and the NFMs by the NFM
5 rates to come up with my estimate of the amount of
6 revenue.

7 Q Could you turn to page 22 of your testimony,
8 please? At the very bottom you give an example of a
9 hybrid parcel as a piece that meets the current UFSM
10 1000 standards.

11 Is it fair to say that the basic difference
12 between the AFSM 100 and the UFSM 1000 standards is
13 that a piece more than three-quarters of an inch thick
14 but less than an inch and a quarter will generally
15 run, to use your phrase, on the 1000?

16 A That is getting into an area the details of
17 which are beyond my knowledge.

18 I do understand that based on our standards
19 something over three-quarters of an inch is not
20 considered machineable on the AFSM 100 and that pieces
21 between three-quarters of an inch and one and a
22 quarter inch are if they meet other criteria, which
23 I'm not sure I can tell you exactly. They're in the
24 DMM. Those pieces could be processed on the UFSM 1000

25 Q That was an example of a hybrid parcel that

1 we're talking about.

2 A Okay.

3 Q Presumably it meets, as you say, the current
4 UFSM 1000 standards. It presumably does not meet the
5 100 standards.

6 What I'm interested in is what's a hybrid
7 flat then?

8 A Okay. A hybrid flat is a piece that as I
9 understand it would be three-quarters of an inch or
10 less, meet some other criteria, but would have certain
11 disqualifying characteristics such that it would not
12 be able to be considered a flat. I think the key
13 characteristic is rigidity.

14 The distinction between a hybrid flat and a
15 hybrid parcel is that there are some pieces that would
16 be over three-quarters of an inch and so in the long
17 run the Postal Service expects that these pieces would
18 be treated as parcels, but for the purposes of rate
19 change mitigation we have proposed this designation of
20 the hybrid parcel or the NFM parcel to make these
21 pieces eligible to receive the NFM rate as sort of a
22 stepping stone or as a mitigation effort on their way
23 towards being treated as regular parcels.

24 Q So the basic difference as now I understand
25 it between a hybrid parcel which you described in your

1 testimony at page 22 and a hybrid flat is merely the
2 question of thickness?

3 If it is more than three-quarters of an inch
4 but less than an inch and a quarter it's a hybrid
5 parcel, but then what is a hybrid flat again?

6 A Okay.

7 Q Rigid?

8 A Okay. Rigidity. Rigidity and certain other
9 dimensions.

10 I think I mentioned either in my direct
11 testimony or in certain interrogatory responses that
12 there's two main characteristics that distinguish a
13 hybrid flat. One is that it's thin enough, the three-
14 quarters of an inch, and it also has some dimension
15 small enough that the piece could be caseable.

16 A piece that potentially meets the criteria
17 of a UFSM 1000 piece today but is either greater than
18 three-quarters of an inch or perhaps very large --
19 rigid, but very large let's say like this pad of paper
20 if it was very, very large. It would not be able to
21 fit into the case even if it were less than three-
22 quarters of an inch.

23 That is my understanding of the two
24 principal ways in which a hybrid or NFM piece or a
25 piece that is eligible for the NFM rate might not in

1 the long run be considered an NFM flat. The
2 characteristics of the NFM flat would be that it would
3 be rigid and able to be cased by the carrier.

4 Q Let me see if I can try to sum this up a
5 little bit. Are you saying that two pieces having
6 exactly the same external dimensions could be either a
7 hybrid parcel or a hybrid flat?

8 A I hope I didn't give that impression. I was
9 saying that if they had a piece that was greater than
10 three-quarters of an inch or had dimension, length
11 plus width dimensions, such that it was too big to fit
12 in the case that would be considered a hybrid parcel.

13 If its thickness was less than three-
14 quarters of an inch and it also had one dimension
15 small enough so that it could fit in the case we would
16 consider that a hybrid flat.

17 Q Well, if it is less than three-quarters of
18 an inch thick and otherwise meets the dimension of a
19 flat and it fits in the case, why do we assume that it
20 won't be run on the 100 unless it is too rigid?

21 A The rigidity is a defining characteristic.

22 Q All right. So there is an additional
23 characteristic, which means that I could have a piece
24 that is less than three-quarters of an inch thick
25 that is too rigid; therefore at least a hybrid flat,

1 but also conceivably a hybrid parcel because one of
2 the other dimensions might not meet the 100
3 dimensional definition.

4 A I was with you all the way right up to the
5 end. Not the 100 definition, but it would not meet
6 the caseability dimension.

7 Q Okay. Either way. There's one other piece
8 to this, and I'm curious as to how you treated them or
9 how you understood them to be treated.

10 Would you agree that the current definition
11 of a standard parcel, a parcel subject to the residual
12 shape surcharge, is a piece that is parcel shaped
13 is prepared as a parcel? What sort of treatment in
14 developing your revenue did you give to pieces that
15 are prepared as parcels?

16 A I did not make any distinction between
17 pieces that were parcels because of shape or because
18 they were prepared as parcels.

19 When I had a forecast and let's say
20 recategorized or divided up the parcels I took all of
21 the RSS pieces.

22 Q I see.

23 A There may be some pieces in there that are
24 prepared as parcels that would not continue to be
25 prepared as parcels given the new rates. I don't know

1 how many that is.

2 Q All right. Let's turn for a moment to page
3 23 of your testimony.

4 You alluded to the fact that you've treated
5 or have characterized the NFM category as
6 transitional, and you say that the Postal Service's
7 eventual plan is to move hybrid parcels into the
8 parcels category. Is that correct?

9 A I didn't mean to imply that the NFM category
10 as a whole is transitional. The NFM parcels, the
11 hybrid parcel designation, is transitional.

12 Q The hybrid parcel designation is
13 transitional. That's exactly my question.

14 What happens at the end of this transition
15 to what is at least arguably defined as a hybrid flat?

16 A That is obviously a question that the Postal
17 Service will evaluate, but at the present time I don't
18 believe that we have a plan to eliminate it.

19 I'm not saying that it will endure for all
20 time, but there's no plan in place to eliminate it so
21 it is not intended at this point as a transitional
22 categorization.

23 Q All right. What we have been exploring is
24 how you distributed the volumes that you got from
25 Witness Thress into the four categories.

1 There's another step in the rate design/rate
2 making process, and that is you have to distribute
3 within each category by level of sortation and drop
4 history and the like. I've got a few questions about
5 that as well.

6 Could you turn to PostCom Question and
7 Answer 5, please? What we asked you was --
8 Whereupon,

9 JAMES M. KIEFER

10 having been previously duly sworn, was
11 called as a witness and was examined and testified as
12 follows:

13 BY MR. VOLNER:

14 Q We asked you to provide the data test year
15 after rates which you relied to determine the
16 percentage of NFMs that are pound rated as opposed to
17 piece rated. Your response refers to your workpaper
18 and you say this section shows the assumed piece rate
19 shares and pound rate shares for NFMs.

20 The word assumed has me beguiled. Where did
21 you get that section? I mean, did you simply make a
22 judgment or did it come from Library Reference 33?

23 A My recollection is that what I did was I
24 distributed these pieces between piece rate and pound
25 rate in the same proportion as what I believed was

1 their let's call it the predominant parent category,
2 which was then automation files.

3 Q So that to the extent that there may be a
4 difference in the weight of these pieces as compared
5 to the automation flats category your assumption would
6 come to either overstate or understate the revenues?

7 A Yes. The revenues. I mean, it wouldn't
8 have changed my rate design or rate proposals, but
9 yes, to the extent that given that we didn't have
10 precise information on how these pieces split down
11 between the piece rated and the pound rated items I
12 used, you know, an assumption that they would follow
13 this particular split and to the extent that they are
14 different from the category I assumed the revenues
15 might be up or down a little bit.

16 Overall within the overall standard mail
17 revenues and revenue requirement this is a very, very
18 small amount.

19 Q It is indeed a very small amount, but the
20 rates that the mailers who are going to be subject to
21 these new categories have to pay are not small are
22 they?

23 A As I said just a little bit earlier that
24 this split between the piece rated and pound rated
25 pieces was done for the purposes of revenue estimation

1 and it did not feed specifically into the choice of
2 rates that I was proposing.

3 So the rates that they will pay under my
4 proposal are what they are, but any error that I might
5 have made in allocating between piece and pound would
6 only show up in sort of the bottom line standard mail
7 revenue and, you know, \$15 billion or something like
8 that. I mean, you know, it might wiggle it by a few
9 million. I don't know. It's not a big amount.

10 Q Did you make the same assumption when you
11 split standard parcels between piece and pound? Did
12 you use the automation flat assumption?

13 A No. I believe I used the RSS proportions

14 Q Well, one of the other things that you have
15 to do in developing what I call the vertical
16 distribution as opposed to horizontal is to figure out
17 the sortation levels that these pieces are likely to
18 achieve. I have a series of questions about that. Am
19 I correct that in allocating the NFMs to the various
20 sortation levels that you propose you did not use the
21 information from Library Reference 33?

22 A I used information, some estimates that were
23 provided by Witness Loetscher. I do not specifically
24 recollect whether he put those into Library Reference
25 33 or into a different one. My workpapers indicate

1 the source of that.

2 Q Would you turn to your answer to Postcom 9,
3 please? Wherever you derived it you assumed that
4 there is not going to be a lot of sortation occurring
5 or historically has not occurred, am I correct, within
6 the hybrid category?

7 A I'm not sure I would agree with that
8 statement. I'm looking now at my papers showing the
9 commercial test year after rate pieces in pounds and
10 there doesn't seem to indicate a fairly significant
11 amount of --

12 Q Sortations of three and five?

13 A -- sortation. Yes. I don't have them
14 specifically grouped together, but it looks like the
15 dominant level of sorting is in that three digit and
16 five digit.

17 Q Well, then why in the front door question
18 did you say that you significantly mitigated the base
19 rate, ie., the top rate, for parcels?

20 A Okay. The base rate was the starting rate
21 from which the discounts would be taken and the
22 estimate that I got for the mail processing and
23 delivery costs, which you could see as shown in my
24 proposed pricing workpaper for the hybrids, was about
25 over \$2.

1 This seemed to be a rather unacceptably high
2 increase to impose on even the most or the least work
3 shared piece, so what I did then was I very
4 significantly mitigated let's say the least work
5 shared piece in the hybrid group and then having done
6 that it became necessary to sort of squeeze down the
7 work share discounts for the lesser amounts.

8 I mean, if you start with let's say \$2 to \$3
9 as your top rate and you say a sort is worth 80 cents,
10 well, that's a different situation from if you're
11 saying well, I'm going to start with a price of about
12 80 cents, or 90 cents, or \$1. You can't then take that
13 80 cents for each level of sortation. So I think
14 that's what I was trying to say.

15 Q That explanation I understood perfectly.

16 A Good.

17 Q It's the converse of what we used to call
18 the push up affect. What I want to understand is what
19 was the rationale for mitigating the rate for what is
20 by your own assessment and by your colleagues'
21 assessment the most costly, least efficient type of
22 mail in either the NFM or the parcel categories?

23 A Well, the Postal Service is not out to try
24 to disregard the impacts on the least work shared
25 piece and then say the only pieces that get any

1 consideration are those that have, you know, minimal
2 to moderate work sharing. I mean, we look at the
3 impacts on the most or the least work shared, the most
4 expensive piece as well as the most work shared piece.

5 I don't think we would propose, you know, an
6 extreme increase for just the most expensive piece and
7 then everybody else gets very, very large discounts.

8 Q In response to Greeting Card Association 2
9 you said that the mitigation would have no revenue
10 affect. Did that mean in reference to standard mail
11 as a whole?

12 A It would have meant in reference to the
13 particular subclass and in this particular case it
14 would have been regular and nonprofit regular since we
15 group those together for the purposes of establishing
16 and meeting a revenue requirement.

17 As I pointed out in that response that if I
18 try to -- I'm given a revenue target and if I'm to
19 meet that revenue target and moderate the rate impact
20 on, you know, one particular group of mailers it means
21 that some of that impact is that foregone revenue has
22 to be recouped from other mailers. So that would
23 probably push up the costs on flats and letters by a
24 minuscule amount.

25 Q Okay. That was what I understood it to

1 mean. If you had done it the other way, that is to
2 say instead of putting all of your or most of your
3 mitigation on the top rate, but had mitigated by
4 increasing the pass-throughs for say three digit sort
5 or five digit sort in NFM or for that matter in parcel
6 that would not have had a significant adverse affect
7 on revenues in standard regular either would it?

8 A It would not have had a major impact if I
9 had for example proposed a \$2 price for the top rate
10 and then given larger pass-throughs, but it's not
11 clear to me that the rates proposed for the lower
12 levels -- I'm sorry, the more highly work shared, the
13 ones with the lower rates would have been lower than
14 what I proposed.

15 So it's not clear to me that the lowering of
16 the top rate has not benefitted people on the lower
17 rate rungs of the ladder as well. I think that it
18 probably has.

19 Q In response to our Question 9 you explained
20 that by mitigating the top rate it made it practically
21 impossible to give high pass-throughs for the
22 estimated cost savings for the presorting parcels as
23 well. Then you say that you did the same thing with
24 NFM.

25 A Uh-huh. Yeah.

1 Q Are you saying that it really didn't make
2 any difference whether you mitigated the top rate
3 because you weren't going to change those pass-
4 throughs regardless? If so, why?

5 A No. The point that I was making in that
6 particular response was that for example if you look
7 at the case of a nonmachinable parcel each time this
8 nonmachinable parcel is likely to receive manual
9 sorting.

10 Avoiding a manual sort is worth a lot of
11 money and by lowering the top rate I wouldn't, I
12 couldn't possibly continue to take off -- if the value
13 of a sort was considered to be let's say 80 cents or
14 something like that then I couldn't -- if I set my top
15 rate for a nonmachinable parcel at \$1.15 I can't take
16 off 80 cents going from a mixed ADC parcel to an ADC
17 parcel, take off another 80 cents going down from an
18 ADC parcel to a three digit parcel and take off
19 another 80 cents.

20 We're going to be in negative rate territory
21 before you get very far. So that's what I'm talking
22 about there. I had to squeeze down the --

23 Q I understand the squeeze down.

24 A Okay.

25 Q What I'm having trouble understanding is do

1 you know what the pass-throughs were at three and five
2 digits for NFM the way you did it? What percentage of
3 the avoided costs were you passing-through?

4 A Well, according to my pricing sheet the
5 three digit was 20 percent and the five digit was 100
6 percent.

7 Q Did you do any focus group meetings with
8 mailers to see whether they would on NFMs for example
9 be able to get five digit or whether they would likely
10 try to reach the three digit?

11 A I didn't do any focus groups. No.

12 Q Okay. Let's do one other category
13 vertically and then we can start to bring this to an
14 end. Another thing that you needed to figure out was
15 the drop entry discounts. Would you turn to Postcom
16 6, please?

17 A I have it.

18 Q Now, you say I did not estimate the average
19 density of NFMs in developing my testimony and you
20 made no explicit assumptions regarding the density of
21 NFMs in developing your rates. How did you develop
22 the drop entry discounts for NFMs without knowing
23 cubic feet mile, and density and things like that
24 because of the way transportation costs are avoided?

25 A In past practice the standard mail drop ship

1 discounts are taken off the pound rate, and I received
2 information on the savings on a pound basis from
3 Witness Mayes and --

4 Q Was that information on savings on NFMs or
5 was that information on savings on flats of which NFMs
6 had heretofore been a part?

7 A It was not differentiated by shape. In the
8 past the way the standard mail drop ship discounts
9 have been applied it has been applied pretty much
10 across the board on the pound rate.

11 Q So that in some circumstances shape becomes
12 a pricing consideration, but in other circumstances
13 shape doesn't matter anymore. Is that right?

14 A I don't agree with that statement. In some
15 cases we may be able to recognize cost differences by
16 shape, in other areas we may not have data that
17 permitted --

18 Q Let me ask --

19 A You know, I can't go into any great detail
20 on the derivation of those or the shape-based nature
21 of the cost data. I mean, I don't know enough about
22 it.

23 Q Well, the witness will be up in the fullness
24 of time and the Commission will be burdened with my
25 presence again, but I just want to try and understand

1 how this works from a pricing standpoint. Would you
2 please turn to PSA Interrogatory 4 and your response?
3 There you say categorically to my knowledge the Postal
4 Service has not developed avoided costs specifically
5 for dropped shipping standard mail parcels.

6 The same thing is true with respect to NFMS
7 isn't it?

8 A Yes.

9 Q So that to the extent that shape or
10 potentially weight in one of those two categories is
11 different than in standard mail flats or whatever you
12 used as the proxy the avoided costs are going to
13 differ aren't they?

14 A Well, I'm given the avoided costs by weight
15 or on a weight basis, so you said to the extent that
16 weight is different. Well, weight would give us some
17 measure of the amount of cost avoided.

18 Q The weight that you were given was not based
19 upon the particular --

20 A It was not differentiated by parcels.

21 Q Okay. Can you tell me what the percentage
22 of pass-through in parcels on the drop entry discounts
23 is?

24 A I don't have it multiplied out, but in the
25 case of parcels what I did was I proposed that the

1 discounts be augmented by various factors and the case
2 of parcels dropped at a DBMC I proposed that the drop
3 ship discount which would be available to other
4 categories on a so much per pound basis would be 20
5 percent higher, that the savings were passed-through
6 to achieve the nonparcel drop ship discount for the
7 DBMC.

8 It was an 87 percent pass-through. The
9 reason I gave for that was that we customarily have
10 passed-through something less than 100 percent of the
11 drop ship savings because this is applied to the piece
12 rated pieces at an assumed weight of 3.3 ounces, that
13 is at the breakpoint rate, so we pass-through a little
14 bit less than that.

15 So the answer for a DBMC would be 87 percent
16 times 1.2 which from my calculation would probably be
17 a bit over 100 percent.

18 Q Yes. The question is how did you arrive at
19 the 20 percent higher? Based upon what? On the
20 assumption that these pieces will avoid more costs,
21 correct?

22 A Yes.

23 Q Was there any empirical evidence behind that
24 assumption? Suppose it turns out that they avoid 25
25 percent more cost than the subclass taken as a whole.

1 A Yeah. This is not based upon a mail study.

2 Q Okay. All right. Let's turn finally to a
3 couple of questions about the affects of the rate
4 design. You told us at the very beginning of this
5 conversation that you made no changes in whatever
6 assumptions were embedded in Library Reference 33.

7 Is it also correct that you assumed that
8 whatever the volume stood in terms of level of
9 sortation, in terms of extent of drop entry, whatever
10 percentage was being drop entered or sorted and drop
11 entered would not change under your proposed rate
12 levels?

13 A As is usually the case we use sort of a base
14 year proportions to estimate the revenues, again, for
15 the purposes of revenue projections, not necessarily
16 for the purposes of designing weights.

17 I think it's important to keep that in mind,
18 that in the particular circumstance of parcels or NFMs
19 any impacts on where the pieces may go in terms of
20 presort or drop ship entry in response to the pricing
21 the proposals would have a rather minor impact on
22 overall revenues, so that would not have any
23 significant feedback affect into the rate proposed.

24 Q Well, let me phrase the question a little
25 bit differently. The purpose then of developing these

1 presortation and drop entry discounts for the two new
2 categories which did not heretofore exist, your only
3 concern was that it not have a push up affect on the
4 existing categories letters and flats?

5 A No. No.

6 Q In other words they're not going to respond
7 to these incentives?

8 A No. That's not my testimony. What I said
9 was that we did not -- well, I should qualify this in
10 saying that as with all of our pricing proposals the
11 proposed prices are fed back to Witness Thress who
12 develops his test year after a forecast so that there
13 may be some price responses, but those would actually
14 only be at the levels in which he forecasts them.

15 I did not attempt to lay the levels that
16 were provided to me by Witness Thress to try to say
17 that well, I think that there's going to be this kind
18 of a shift or that kind of a shift between three digit
19 and five digit or between a DBMC entry or a DDU entry.
20 The consequences of assuming sort of static
21 proportions, which is commonly done when we do our
22 rate design, the consequences only show up in the
23 revenue category.

24 Now, it wasn't that I had no concern over
25 how I set the rates due to the fact that this would

1 not affect the overall revenue bottom line in a
2 substantial way and in some sense that gave me
3 significant freedom to mitigate some of the impacts
4 because in mitigating the impacts I would not be
5 causing a significant revenue shortfall.

6 So that was what my concern was. So I was
7 concerned over the rates and to the extent that they
8 didn't capture exactly migrations that would probably
9 not have a substantial impact on the overall revenue
10 aspect.

11 Q You didn't capture exactly migrations.
12 Isn't it more correct to say that you simply assumed
13 that there would be no migrations?

14 A Well, aside from whatever might arise
15 through the --

16 Q Through the reclassification.

17 A Well, no. From the price induced changes in
18 the forecast from Witness Thress. I did not assume
19 below the level at which Witness Thress gave me
20 forecast information. I did not change the
21 proportions.

22 Q Witness Thress did not give you forecast
23 information at the level of these four categories did
24 he?

25 A No.

1 Q To take this a little bit more specifically
2 I notice you've changed your testimony a little bit --
3 and this is in another area to be sure -- as to
4 whether mailers would respond to the surcharge on the
5 detached address labels. Is it correct that your
6 original testimony was that you assume that 50 percent
7 of them would respond and you decided that you're
8 going for purposes of revenue to assume that nobody's
9 going to respond?

10 A For purposes of being consistent between the
11 cost projections and the revenue projections I assumed
12 100 percent continuation. Those mailers who use them
13 now will continue to use them.

14 Q Would you turn to Postcom 7(b)? You say at
15 the end of that discussion although some mailers may
16 choose to reconfigure their mail pieces to avoid
17 paying NFM rates I did not assume any reconfiguration
18 during the test year for the purpose of developing --
19 was that also because of the roll forward of the
20 question?

21 A I didn't have any good information on which
22 to make an alternate assumption. I mean, if we had
23 made a significant one we may have been able to get a
24 final adjustment in the roll forward, but I didn't
25 make that assumption so a final adjustment was not

1 needed.

2 Q To go back to our earlier discussion which
3 still has me a little bit confused, but that's for
4 another, a piece which is seven-eighths of an inch
5 thick and therefore is probably I guess a hybrid
6 parcel? Otherwise maybe the dimensions of a flat.

7 A A piece that currently would meet the UFSM
8 1,000 criteria by the seven-eighths of an inch thick
9 would be considered a hybrid parcel.

10 Q A hybrid parcel. So if I have a catalog
11 that is seven-eighths of an inch thick your assumption
12 is I'm going to mail that piece regardless and I am
13 indifferent to postage costs that I'm not going to
14 drop out four pages and get myself down under three-
15 quarters of an inch or change the paper weight of the
16 whole catalog? That's your assumption for revenue
17 purposes?

18 A I have received many catalogs in the mail
19 that were far less than three-quarters of an inch
20 thick, but those ones that get up over about half an
21 inch or five-eighths of an inch are usually up well
22 above a pound and would not be mailed as standard
23 mail. Those are typically mailed bound printed
24 matter.

25 Q Did you do any content analysis to see what

1 is in this category between three-quarters of an inch
2 and an inch and a quarter that supports this
3 assumption that they can't change it? Were there any
4 studies done of the content of what are now hybrid
5 parcels?

6 A I didn't do any studies.

7 Q Do you know whether any of your
8 colleagues --

9 A Well, I know that I've been in meetings
10 where there's been anecdotal evidence of the kinds of
11 pieces that fall into these various categories and
12 were brought out, but I mean, and folks who know a lot
13 more about this than I do may have discussed this, but
14 going out and -- other than the mail characteristics
15 study which didn't specifically identify the content
16 of the pieces I'm not aware of any studies.

17 Q On the question of migration also you did
18 not assume that there would be any change in the
19 proportion of parcels that are barcoded. Is that
20 correct?

21 A For the purposes of assessing or determining
22 revenue from the non-barcoded surcharge I assumed in
23 fact that all parcels and NFMs would be barcoded.

24 Q You assumed that all parcels and NFMs would
25 be barcoded?

1 A Yes.

2 Q So that you departed from the Library
3 Reference 33 assumption with respect to barcoding NFMs
4 and parcels?

5 A My recollection is that the mail
6 characteristics study that was in that did not
7 distinguish between barcoded and non-barcoded pieces.

8 Q Well, I'll take that up with the appropriate
9 witnesses. It's a question of what he did and what
10 you did.

11 A Right.

12 Q What you're telling me is what you did was
13 assume that all NFMs and all parcels will be barcoded
14 for revenue development purposes.

15 A Okay. Yeah. Well, at the present time all
16 pieces that want to claim the UFSM 1,000 automation
17 flats rates must be barcoded. So then a significant
18 number of RSS pieces from our billing determinants,
19 those pieces are also barcoded. We know that from our
20 billing determinants data.

21 We also know that the only pieces that get
22 the barcode discount, which is how we are able to
23 estimate the number of barcoded RSS pieces, the only
24 pieces that get the barcoded discount are pieces that
25 are machinable which means personal sorting machine

1 machinable. At the present time they have to be at
2 least six ounces in weight.

3 So it is possible that there are pieces that
4 are barcoded that are between zero and six ounces but
5 would not show up on our records. So I don't think it
6 was an unreasonable assumption.

7 Q Let's turn finally to Postcom 8. We're back
8 to what the ultimate or part of what the ultimate
9 preface of I understood this exercise to be. You say
10 that under the current structure it is difficult to
11 get an accurate estimate of unit revenues for standard
12 mail parcel shaped pieces and that is because some of
13 them are in fact treated as flats. Is that correct?

14 A Could you repeat the question? You were
15 paraphrasing, and I was trying to follow you and I
16 didn't do that good of a job.

17 Q Your last sentence is that it is difficult
18 to get an accurate estimate of unit revenue for
19 standard mail parcel shaped pieces. I assume that the
20 reference means to the current rate design because of
21 the way revenues and costs are allocated within the
22 current rate design?

23 A Right. The use of the term parcel shaped
24 pieces includes pieces that may pay flats rates, but
25 they are parcel shaped.

1 Q It is also equally true isn't it that it's
2 difficult to get an accurate estimate of the cost
3 associated with some standard parcels?

4 A Standard. I have been told that, but you
5 might want to address that to the cost witness.

6 Q Well, would you turn to page 22 of your
7 testimony?

8 A Uh-huh.

9 Q You say one of the consequences of this
10 mismatch is that many pieces are counted as parcels
11 for cost allocation purposes, but are counted as flats
12 for volume purposes.

13 A Yes. That's what I understand.

14 Q Okay. Is the same thing true in both
15 dimensions with respect to hybrids?

16 A Both dimensions? I mean, no. The problem
17 is that the hybrids are -- well, to speak broadly the
18 hybrids are currently, many of them are receiving
19 flats rates but are parcel dimensioned so the problem
20 is that there are many parcel shaped pieces some of
21 which are RSS pieces and some of which are currently
22 UFSM 1,000 pieces which will become hybrid pieces.

23 Q A UFSM 1,000 piece is receiving flats
24 rates --

25 A That's correct.

1 Q -- and it's treated as a flat for costing
2 purpose isn't it?

3 A My understanding is that it often is not.
4 That's what I've been told. Well, I mean, I have on
5 my desk a piece that actually arrived at my house
6 which is a UFSM 1,000 piece with a blown on PSM
7 barcode which only gets on if it goes through the
8 personal sorting machine in the PMC. So, I mean, this
9 piece obviously has traveled down the parcel mail
10 processing pathway.

11 So, I mean, that would probably be tracked
12 as parcel, so I think that's the nub of the problem.

13 Q Tracked as a parcel for what purpose,
14 costing or revenues?

15 A Cost purposes.

16 Q Well, now let me bring this to a close.
17 Unless we know exactly what a hybrid parcel is or is
18 not how is this new rate design going to help improve
19 the mismatches that exist in the current system? Let
20 me pose a hypothetical to you. Suppose that a hybrid
21 flat because it's too rigid or won't fit in the case
22 for casing purposes continues to be run on the AFSM
23 100.

24 How is that going to be treated for revenue
25 purposes?

1 A There's a couple of clarifications that I
2 should make to your statement. If a piece is not able
3 to be cased it would not be considered a hybrid flat.
4 I've also in talking to some of the folks that know
5 more about this than I do about the operations they do
6 not believe that such a piece would actually be run on
7 the AFSM 100.

8 I mean, to say that nowhere at no time not a
9 single piece would ever make it that's one thing, but
10 statistically it would be unlikely to be seen on the
11 AFSM 100.

12 Q That doesn't answer my question. Until we
13 know precisely what is a hybrid parcel, what is a
14 hybrid flat, what is a standard parcel, how is the
15 change in the creation of the categories going to more
16 accurately affect the ability of the Postal Service to
17 measure both cost and revenue?

18 A If I understood your question now or at
19 least the clarification to say until we know we would
20 expect to know what the final mailing standards would
21 be before the Commission actually makes its
22 recommended rates. I mean, that's typically the
23 process. My statement that we will be able to better
24 track these is referring to the post-implementation
25 world, not to sometime between now and when the

1 Commission actually makes its weight recommendation.

2 Q If those final implementing regulations
3 either create overlaps between say hybrid parcels and
4 hybrid flats or either broaden or narrow the category
5 of NFMs generally that will in turn have an affect
6 upon your revenue forecast for these categories or
7 will not?

8 A I've made my revenue forecast.

9 Q You're exactly correct. Would have an
10 affect on the actual outcome of the revenues that you
11 derived from these four new categories.

12 A It's clear that there's a whole range of
13 circumstances which may lead to revenue outcomes
14 different from what I have projected. Changes in the
15 eligibility of pieces for the various categories would
16 be one of those factors.

17 MR. VOLNER: Mr. Chairman, I have no further
18 questions. Thank you.

19 CHAIRMAN OMAS: Thank you, Mr. Volner.
20 Since it's 12:00 right now I think we'll go ahead and
21 take a lunch break and come back and reconvene at
22 1:00. Thank you.

23 (Whereupon, at 12:00 p.m., the hearing in
24 the above-entitled matter was recessed, to reconvene
25 at 1:00 p.m. this same day, Tuesday, August 8, 2006.)

(1:00 p.m.)

MR. BAKER: Thank you, Mr. Chairman.

BY MR. BAKER:

A Good afternoon.

A Yes.

A Yes.

Q Or ECR rate design.

A Yes.

Q Okay. I want to discuss page 16 of it, and

1 I've actually made copies for the convenience of
2 people who don't have it handy, so --

3 A Okay. Thank you.

4 Q Mr. Kiefer, with some difficulty I've
5 attempted to pass around copies of your workpaper STD
6 ECR 16. Do you have that in front of you?

7 A Yes, I do.

8 Q Does that appear to be in fact a copy of the
9 appropriate sheet?

10 A It looks like it.

11 Q Okay. I want to direct your attention to
12 the lower left side labeled commercial rates where you
13 present proposed rates for letters, flats and parcels,
14 and I want to concentrate now on the flats set.

15 A Okay.

16 Q I notice there that you present density
17 savings in pass-throughs for the EATS tier, the basic,
18 and the high-density and saturation and you have the
19 density savings which come to you from other
20 witnesses, your pass-through and the differential. Is
21 that correct?

22 A Yes.

23 Q What are the units in the differential
24 column?

25 A These are in terms of dollars, so that the

1 .029 to be 2.9 cents.

2 Q Okay. I notice in the line for saturation
3 flats the difference between saturation and high-
4 density shows the density savings of 1.85 cents, a
5 pass-through of 120 percent and a rate difference of
6 2.2 cents, correct?

7 A Yeah.

8 Q That 2.2 cents per piece differential
9 persists at every entry point and for both piece and
10 pound rated pieces, correct?

11 A Yes. It would be taken off the piece rate
12 components of the pound rated pieces.

13 Q For convenience and in case we want to refer
14 to an actual proposed rate, so if we move across this
15 sheet a group to the left we would find your proposed
16 rates for piece rated flats broken down by entry point
17 and rate category, correct?

18 A Correct.

19 Q For a high-density piece rated flat entered
20 at the DDU you present a proposed rate of 16.2 cents,
21 correct?

22 A That's correct.

23 Q Do you happen to know the current rate for a
24 DDU high-density flat?

25 A For a ECR high-density flat delivered to the

1 DDU it would be 14 and a half cents.

2 Q Okay. So you propose a rate increase of 1.7
3 cents there?

4 A Yes.

5 Q Okay. For a saturation piece rated piece
6 entered at the DDU I notice a proposed rate of 14
7 cents, correct?

8 A Correct.

9 Q That's a 2.2 cent difference from the high-
10 density rate, correct?

11 A The difference between the rates, yes. It's
12 2.2 cents below it.

13 Q For reference do you have the current rate
14 for a DDU saturation flat?

15 A 13.6 cents.

16 Q Okay. So that would be an increase of 0.4
17 cents, correct?

18 A Well, yes, if the piece is assumed to switch
19 from a detached address label on piece addressing. If
20 the piece continued with a DAL piece and continued to
21 use the detached address label it would be a little
22 bit higher. It would be 15.5 cents.

23 Q All right. We'll get to the DAL
24 surcharge --

25 A Sure.

1 Q -- in a moment. I'm just trying to lay out
2 the rates presented here. So under your proposed
3 rates a high-density flats mailer such as perhaps a
4 newspaper TMC program, my client, entered at the DDU
5 currently pays nine-tenths of a cent more than a
6 saturation flats mailer currently.

7 A Okay.

8 Q Under your proposal the same newspaper TMC
9 mailer paying high-density rates at a DDU would pay
10 2.2 cents more than an on piece addressed saturated
11 mailer?

12 A That is correct.

13 Q All right. Now, you are also proposing an
14 optional surcharge that's optional to the mailer of
15 one and a half cents for saturation mailers that
16 choose to use detached addressed labels to supply the
17 address, correct?

18 A Correct.

19 Q Is the purpose of the DAL surcharge to give
20 saturation mailers an incentive to switch to on piece
21 addressing?

22 A It has that as one of its purposes, but also
23 it has a purpose of collecting additional revenue from
24 pieces that use this alternate form of addressing.

25 Q So then there are two purposes: (1) to

1 encourage them to shift; and (2) for those who don't
2 shift you collect additional revenue?

3 A Yes.

4 Q The way the Postal Service is proposing to
5 do this in practice is to impose a surcharge or a
6 penalty in the form of a distinct price for the
7 optional use of that form of addressing?

8 A A surcharge. Yes.

9 (The document referred to was
10 marked for identification as
11 NAA Cross-Examination Exhibit
12 No. 36-1.)

13 MR. BAKER: Mr. Chairman, I'm going to try
14 again to pass around -- I would like to mark for
15 reference the page that we've just been discussing as
16 NAA Cross-Examination Exhibit No. 1, Mr. Chairman.
17 It's already in evidence, but for clarity in the
18 record I think it would be useful to have it
19 identified in that way.

20 CHAIRMAN OMAS: Without objection.

21 BY MR. BAKER:

22 Q I'm now going to pass around for your
23 convenience the following page, which is page 17 of
24 your standard ECR worksheet.

25 A Good.

1 Q Have you had an opportunity to look at the
2 sheet I just passed around?

3 A Yes, I have.

4 Q Here what you do is present percentage rate
5 increases to your proposed rates, correct?

6 A Yes. For certain samples.

7 Q Samples. Illustrative pieces.

8 A Illustrative pieces.

9 Q Okay. We ask you in interrogatory I believe
10 it was No. 9, and you can refer to it if you wish, but
11 what we had asked in the question was in the class
12 category that the percentage increases for saturation
13 were much smaller across the board than they were for
14 basic and high-density.

15 In your response to NAA 9 you said well,
16 yes, but that's because this page of the spreadsheet
17 does not include the revenue or rate increase affects
18 of the TAL surcharge. Is that correct?

19 A The saturation line is on piece addressed
20 pieces.

21 Q Okay. So the line on saturation shown on
22 this sheet reflects what I call the mandatory base
23 rate if you will. It's the lowest rate that they can
24 pay and they are paying that by putting the address on
25 the piece?

1 A That's correct.

2 Q Okay. Why did you not include the DAL
3 surcharge when you prepared the spreadsheet?

4 A One reason was that at the time I did
5 prepare this I had an assumption that approximately
6 half of the pieces that were using detached address
7 labels would switch and half wouldn't which I since
8 have changed and filed a revised testimony in that
9 regard.

10 Perhaps it would have been a little bit more
11 illustrative if I had put in the two lines for
12 saturation, one with and without, but these are for
13 the case where the pieces would as you say put the
14 address on the piece.

15 Q All right. Now, to develop the rate
16 differentials between the different tiers in ECR you
17 used mail processing cost data from Witness Talma was
18 it I believe?

19 A Yes.

20 Q Delivery cost data from Mr. Kelley, correct?

21 A That's correct.

22 Q All right. So could you turn back to page
23 16 of the spreadsheet, the one I circulated first that
24 we've marked as NAA Cross-Exhibit No. 1?

25 A Yes.

1 Q Looking back to commercial rates flats on
2 the lower left corner of the page I see that the
3 density savings presented for high-density flats shown
4 there are -- that's 2.41 cents, correct?

5 A Yes.

6 Q Okay. Now, I get to pass around a third
7 page.

8 A Okay.

9 Q This time it is from the input page of your
10 spreadsheet.

11 A Okay.

12 Q Now, Mr. Kiefer, I just handed you stapled
13 two pages labeled USPS-T-36 workpaper STD ECR 1, and I
14 stapled together actually three sheets.

15 A Three sheets.

16 Q That was my attempt to print out the first
17 half of your spreadsheets.

18 A Okay. Uh-huh.

19 Q This is really where you lay out for us or
20 benefit of the people reading that workpaper or
21 spreadsheet of yours the inputs that went into the
22 rate design, correct?

23 A Right. As a general convention everywhere I
24 have sort of exogenously obtained data they're shown
25 in that blue type so that you can see what the input

1 assumptions are and certain numbers here in black are
2 maybe just summations of that data.

3 Q Okay. If you turn to the second page on the
4 printout I gave you on the left column you will see
5 costs.

6 A Yes.

7 Q These are test year before rates, volume
8 variable costs, and the top grouping is mail
9 processing cost per piece and then right below that we
10 have test year delivery cost per piece.

11 A Yeah. I believe you said test year before
12 rates. The before rates and after rates unit costs
13 are the same.

14 Q Okay. Fine. All right. I want to direct
15 your attention to basically the middle of the second
16 sheet there where you have present the test year
17 delivery costs per piece down in the category flats
18 and there you present them separately: basic, high-
19 density and saturation. I notice that the entries for
20 delivery costs for basic and high-density flats are
21 both the same number, 7.077 cents, correct?

22 A Yes. They were not differentiated in the
23 data that was given to me.

24 Q In fact we know through discovery through
25 Mr. Kelley and some questions I've asked of you that

1 that number is an aggregated number that combines the
2 delivery cost for the basic and high-density together.

3 Is that correct?

4 A That's my understanding. Yes. It's an
5 aggregate.

6 Q By the way did you understand that at the
7 time you prepared your testimony?

8 A Did I understand?

9 Q That that was an aggregated cost number
10 there?

11 A I believed that the information that was
12 provided to me was that this was the delivery cost for
13 nonsaturation pieces, so yes.

14 Q So one of the two delivery cost inputs that
15 was being used to show the cost difference between
16 basic and high-density flats used a cost figure that
17 in fact aggregated and averaged the delivery cost of
18 the two. Is that correct?

19 A As an input, yes.

20 Q Yes. Okay. All right. So right above the
21 test year delivery cost per piece if we go to the mail
22 processing cost per piece we have different numbers
23 for basic and high-density, correct?

24 A Yeah. The basic and high-density are
25 different. The high-density and saturation are,

1 again, aggregated. Yes.

2 Q If you found the difference between the mail
3 processing cost per piece for basic flats and high-
4 density flats would you accept that you would come to
5 approximately 2.41 cents?

6 A I believe that's probably the number. Yes.
7 It should be.

8 Q If you go back to NAA Cross-Examination
9 Exhibit No. 1 or page 16 that's precisely the figure
10 that appears in density savings for high-density
11 flats?

12 A Okay. Yes. Yes. I was a little bit slow
13 in following you. I thought you were referring to an
14 Interrogatory Question 1. Okay. I'm with you.

15 Q All right. Could you turn to your response
16 to NAA Interrogatory 17 to you?

17 A I have it.

18 Q In this interrogatory we asked you about
19 some data that Mr. Kelley had provided us in response
20 to a question to him that had disaggregated the 7.077
21 delivery cost figure that we saw before in your
22 spreadsheet into the separate unit delivery cost for
23 ECR basic and ECR high-density flats, correct?

24 A Yes.

25 Q Okay. In (d) of that question we actually

1 presented the numbers. The unit delivery cost for ECR
2 basic flats is 7.325 cents and for ECR flats is 5.303.
3 Would you agree with me that the disaggregated costs
4 show a 2.02 cent delivery cost difference between
5 basic and high-density ECR flats if I did my math
6 right?

7 A Yes. The difference between those two
8 numbers is approximately 2., what, 02?

9 Q Two. Yes. If you added that to the mail
10 processing costs on page 1, the inputs page of your
11 spreadsheet, that show the difference between the
12 basic and high-density flats mail processing of 2.41
13 cents, the number we talked about a few moments ago,
14 we could get a sum of the differences in mail
15 processing and delivery costs between basic and high-
16 density flats of approximately 2.41 plus 2.02 or 4.2
17 cents. Follow me there?

18 A You're talking about adding the mail
19 processing costs for basic of 4.011 cents and for
20 high-density of 1.599 cents.

21 Q Well, I think so. I want to make sure.
22 Walk us through. I'm taking from page 1 of your
23 spreadsheet the mail processing --

24 A Right.

25 Q -- cost difference between the four cents

1 and the 1.59 cents which we've already agreed is 2.41
2 cents.

3 A Wait a minute. No. Okay. Right. That
4 would be the difference --

5 Q Basic and high-density and mail processing.

6 A Uh-huh. Okay.

7 Q We're adding to that the 2.022 cents for
8 delivery and that gives us by my math 4.423 cents.

9 A Okay.

10 Q Okay. Now, your proposed high-density
11 discount is 2.9 cents.

12 A Yes.

13 Q You would accept subject to check that 2.9
14 cents is if the total mail processing and delivery
15 cost is aggregated between basic and high-density
16 flats is 4.423 cents, 2.9 cents is about 65 percent of
17 that?

18 A I haven't done that calculation, but --

19 Q Okay. You can divide 2.9 by 4.42 and come
20 out about 65 percent subject to check.

21 A Suppose. Uh-huh.

22 Q Now, in the NAA Cross-Examination Exhibit
23 No. 1, which was page 16 of your spreadsheet, you show
24 the proposed pass-through between basic and high-
25 density flats of 120 percent. Is that correct?

1 A Yes.

2 Q Would you agree with me that if the 2.9 cent
3 discount were actually a pass-through of the
4 disaggregated mail processing delivery cost difference
5 of 4.423 cents the pass-through is about the 65
6 percent figure I calculated?

7 A Well, the reservation I would have is when
8 you use the word disaggregated because as you see what
9 you're doing is you're comparing a disaggregated
10 delivery cost number with an aggregated mail
11 processing cost difference.

12 Q How is that because I'm looking at basic and
13 high-density mail processing flats and those are
14 different numbers.

15 A Yes, but if you look at high-density and
16 saturation --

17 Q I'm not talking about that line.

18 A Yeah, but the number that's in that input
19 section is an aggregate for the nonbasic. So, I mean,
20 what you've done is you've disaggregated one part of
21 the total, but you haven't disaggregated the other
22 part. If you had disaggregated the other part between
23 high-density and saturation mail processing costs
24 presumably the high-density would be higher and the
25 saturation would be lower.

1 Q Well, let's not go to talk about that one
2 yet.

3 A Okay.

4 Q I'm working on the high-density discount at
5 the moment. We will go on to the saturation if we
6 need to. I'm talking about the basic and
7 high-density --

8 A Okay.

9 Q -- difference. So there I have
10 disaggregated the cost differences here and I've got a
11 disaggregated cost difference between basic and high-
12 density flats of 4.423 cents. I'm asking that your
13 pass-through when you give it a 2.9 cent discount for
14 that is something on the order of 65 percent?

15 A I can accept that would be the ratio of
16 those numbers.

17 Q You mentioned earlier that this is your
18 first appearance as the ECRA design witness. Do you
19 happen to know if, in past cases, the rate differences
20 between high density and basic had used the aggregated
21 delivery costs, as you did in this case, or
22 disaggregated delivery costs?

23 A I don't remember from personal memory, but I
24 believe that I've seen some previous workpapers that
25 had disaggregated delivery costs in them.

1 Q So can you today tell us whether the high-
2 density discount was determined using the same inputs
3 as in past cases or using a different aggregated
4 input?

5 A Could you --

6 Q Was the use of the aggregated unit delivery
7 costs in developing the high-density discount, as you
8 did in this case, the way it's been done in past
9 cases, or was it a change? Do you know?

10 A If disaggregated data was available in past
11 cases, it would be different from the way I did it
12 because I didn't have disaggregated data.

13 Q Now, let's go back to Mr. Costich's
14 Examination Exhibit 1 and pass through the numbers
15 that you presented here. Now, leaving aside for the
16 moment that you and I may quibble over what the real
17 pass-through number is for high density, because I
18 would say it should be 65, and you put 120, I want to
19 ask you about the numbers that you have here, and to
20 help me do so, could you turn to NAA Interrogatory 8
21 to you?

22 Here, we basically ask you to discuss in a
23 little more detail as to why you did what you did, and
24 we asked, to begin with in Part C, had you considered
25 setting the high-density and saturation pass-throughs

1 at 100 percent of the estimated cost savings, and your
2 answer was, yes, you did begin there, but then you
3 changed them as the process went on.

4 I guess my first question is, why did you
5 start at 100 percent pass-through when you began?

6 A It's a good place to start. If you have
7 some cost data, it's sort of a neutral place to start,
8 I guess you might say.

9 Q Did you use the term "efficient component
10 pricing" in your -- I didn't see it in your testimony,
11 but is that a concept you're familiar with?

12 A I have some familiarity with it, but, as I
13 said, it was a good place to start. I didn't say,
14 well, I'm going to apply one theory or another, but
15 it's a starting place.

16 Q Okay. I won't go down the ECP line today.
17 The Commission has asked some questions about that.

18 Now, if you could also turn back to
19 Interrogatory 17, and we had asked here, again, about
20 the pass-through of 120 percent, and in Subpart E of
21 your response there, you said, and this, again, was
22 the interrogatory when we presented to you the
23 disaggregated unit cost delivery figures for Mr.
24 Kelley.

25 In part, you say here that the density

1 savings differential in your proposed rates worksheet
2 reflects only cost differences due to mail processing,
3 and you took that into consideration by passing
4 through more than 100 percent of those savings into
5 the differential between basic and ECR flats.

6 Why did you use a 120-percent pass-through
7 instead of asking the witness for disaggregated costs
8 information?

9 A At the time when it was supplied to me, I
10 was not aware that he was able to provide that more
11 detailed information.

12 Q Okay. If in the outset, if you had received
13 disaggregated costs data in the first place, you might
14 not have needed to pass through 120 percent to adjust
15 for the use of the aggregated data. Is that right?

16 A If I had received disaggregated mail-
17 processing and delivery costs data, I don't know what
18 the numbers would be, but my presumption would be that
19 the pass-through numbers I would have selected here
20 would have been different from 120 percent.

21 Q Thank you. Now, while we're talking about
22 pass-throughs, I also noticed that the pass-through
23 between high-density and saturation ECR flats shown in
24 NAA Cross-Examination Exhibit 1 also is shown as 120
25 percent. Why?

1 A This is, in some sense, the continuation or
2 the flip side of the same rationale in comparing
3 numbers. As I pointed out before, if you look on the
4 input sheet, the mail-processing costs for high-
5 density and saturation are also aggregated, and given
6 that, there was, as part of the rate design, in order
7 to come up with a rate that reflected the differences
8 between saturation and high density, I chose a pass-
9 through that would actually, in some sense, put a
10 little distance between the two and would also
11 generate rates that had reasonable rate relationships
12 comparable to what we've had in the past between
13 saturation and high-density flats.

14 Q Do you know if Witness Talmo could have
15 given you disaggregated numbers?

16 A I don't think he was able to do that. I
17 believe I had some discussion with him. I don't think
18 he is able to pull that apart.

19 Q And when you were trying to achieve a
20 consistent rate differential between high density and
21 saturation that is consistent with past cases, were
22 you looking at what I've called the "mandatory rate"
23 of 14 cents with on-piece addressing, or were you
24 looking at the rate including the optional DAL
25 surcharge?

1 A Actually, I was looking at both.

2 Q Looking at both.

3 A In other words, I looked at the rate with
4 the DAL, detached address label, and without.

5 Q Now, speaking of DALs, as a formal matter,
6 your testimony, as revised, now assumes that all
7 saturation DAL mailers will continue to use DAL. Is
8 that right?

9 A That's what I've assumed for purposes of my
10 generating the revenue projections.

11 Q And that is because there is no
12 corresponding cost adjustment in the roll forward to
13 reflect is there any different assumption.

14 A I wanted to be consistent with the way the
15 costs were treated in the roll forward.

16 Q Okay. So as your testimony stands, it says,
17 as a formal matter, you are now assuming that no
18 saturation mailer that uses DALs today will switch to
19 on-piece addressing. Is that right?

20 A For the purposes of generating the revenue
21 projections, yes.

22 Q You really believe that assumption to be
23 true?

24 A I think I discussed that issue in my
25 response to the Val-Pak question that was redirected

1 from Witness Page, and the essence of my response is
2 that perhaps there will be some who would respond to
3 the surcharge and go from detached-address-label
4 addressing to on-piece addressing. In that
5 circumstance, we would have a change in costs which
6 would be, in some sense, parallel with it, and we felt
7 that for estimating the net revenue impact, since we
8 didn't have any better information, it would be best
9 to choose the 100-percent continuation, and if there
10 was a reduction, it would be a cost reduction which
11 would be, to some greater or lesser extent,
12 offsetting.

13 Q Okay. Have there been any developments
14 since the filing of this case that may cause you to
15 think that some DALs may disappear from the system,
16 that some saturation mailers may switch to on-piece
17 addressing?

18 A I certainly think it is a possibility.

19 MR. BAKER: Well, I have one more cross-
20 examination exhibit at this point.

21 Mr. Chairman, for convenience, I would like
22 the document that previously circulated that was
23 actually page 17 on the witness's spreadsheet to be
24 marked as NAA Cross-examination 2, and the document
25 that was distributed that was his inputs page, the

1 three pages that were stapled together, marked as NAA
2 Cross-examination Exhibit 3.

3 (The documents referred to
4 were marked for
5 identification as NAA
6 Exhibits 36-2 and 36-3.)

7 MR. BAKER: I now would like to distribute a
8 fourth document. We'll mark this -- well,
9 provisionally marked as NAA Cross-examination Exhibit
10 4.

11 THE WITNESS: Thank you.

12 (The document referred to was
13 marked for identification as
14 NAA Exhibit 36-4.)

15 BY MR. BAKER:

16 Q Mr. Kiefer, I've just distributed a document
17 which I will represent to you is a press release
18 issued by Advo, Inc., bearing a date of June 14, 2006,
19 entitled "Advo Discusses Postal Rate Case," which I
20 obtained from Advo's Web site. Have you seen this
21 document before?

22 A I've seen the information in this document.
23 I might have seen a report in the trade press or
24 something like that indicating that Advo was
25 considering --

1 Q I'll direct your attention to the top
2 paragraph of the press release document, the last half
3 of which reads: "To continue to qualify for the
4 lowest-possible postal rates for its class of mail,
5 the company will modify its operations to move to in-
6 line, on-piece addressing of its Shopwise trademark
7 shared mail advertising package. The changes will be
8 in place by summer of 2007 in conjunction with the new
9 rate structure.

10 It goes on to say that the new on-piece
11 addressing will replace the detached address label
12 currently used for most Advo mailings.

13 Now, assuming that this document is what it
14 says it is, and I will separately undertake to verify
15 it and have it authenticated by Advo, if this
16 document, in fact, is true, would this give you any
17 reason to at least question the ongoing validity of
18 the assumption that you had to make as a formal matter
19 that most saturation mail would shift from DALs to on-
20 piece addressing?

21 A For the purposes of net revenue estimation,
22 it may be, in some cases, more accurate to, in fact,
23 continue with the assumption that I have made, and
24 that was one of the appealing factors that led to my
25 change in my assumption be consistent with the roll-

1 forward numbers rather than, for example, trying to
2 come up with a final adjustment.

3 If we were able to estimate precisely, or
4 even very closely, what the net cost impact was going
5 to be of, let's say, coming up with an alternate
6 assumption, then it may make sense to come up with an
7 alternate volume assumption for revenue purposes, but
8 it would depend upon what kind of cost assumptions I
9 could receive as well. So it wouldn't make a lot of
10 sense for us to continue with the original roll-
11 forward projections of costs which assume 100-percent
12 continuation and have me, let's say, go back to my 50-
13 percent reduction or a 25-percent or a 75-percent
14 reduction. That would not make sense.

15 So that's a question that I'm not able to
16 answer without further information.

17 Q Well, you're constrained, as the rate design
18 witness, by needing to make revenues and costs and net
19 revenues work out, but does it really make sense, as a
20 practical matter, for the Commission to proceed on the
21 assumption that every DAL mailer will continue to use
22 DALs and pay the one-and-a-half-cent surcharge when
23 there may be reason to believe that they won't?

24 A Well, as I understand it, the Commission, in
25 determining what rates to recommend, has to consider

1 the break-even requirement, that is, a net revenue
2 requirement, not a revenue in the absolute but a
3 revenue minus costs. So while we could agree that it
4 may make sense to adjust the revenue in response to
5 some kind of more usable information, unless we could
6 also adjust the cost by an equally satisfactory
7 estimate, we could be introducing more error into the
8 situation.

9 As I say, I can't answer that question. I
10 would need to have information about what kind of cost
11 estimates we can -- reflect that.

12 Q Well, I have somewhat of a different
13 concern. My client's members are looking at a high-
14 density rate that, as proposed, is 2.2 cents higher
15 than the on-piece-address saturation mail rate, and I
16 tell them, It's okay. Mr. Kiefer tells me that they
17 will pay the DAL surcharge, and, therefore, the rate
18 difference isn't very much, but if there is reason to
19 think they will not be using DALs, not be paying a DAL
20 surcharge, then we're looking at a 2.2 cent gap
21 between the high-density flat and the saturation flat
22 rate.

23 Are you saying that the Commission should
24 ignore that because there is a one-and-a-half-cent
25 surcharge as a formal matter that you have to include

1 and assume it's going to be there and be paid, even if
2 there is reason to think it won't be?

3 A Well, I do not know the number of mailers
4 who will, like Advo, switch, but there may be some
5 that will not switch, will continue to use detached
6 address labels, but I think the Commission, in
7 determining whether this is an appropriate rate for
8 the saturation mailers who will make the switch who
9 will also probably consider the impact of our
10 surcharge on mailers, and the cost to be considered is
11 not just borne by the Postal Service. It's also borne
12 by mailers who have to switch so they will take that
13 into consideration.

14 Q The cost of on-piece addressing.

15 A The net cost of switching from detached-
16 address- label addressing to on-piece addressing, yes.

17 Q Okay. You're saying the Commission needs to
18 take that into account.

19 A In evaluating the rates that are being
20 proposed.

21 Q This is a cost that every ECR basic flat and
22 every ECR high-density-flat mailer already bears. Is
23 that correct?

24 A Those mailers who now engage in on-piece
25 addressing have mechanisms to do that. Some of the

1 people who are geared up toward using detached address
2 labels may have to make modifications to their
3 processing and bear some of the costs in order to be
4 able to avoid the one-and-a-half-cent surcharge.
5 We're not unaware of the fact that avoiding the
6 surcharge may impose costs on some of the mailers, and
7 that is, of course, reflected in the more modest
8 increases that are proposed for the on-piece-address
9 saturation flats.

10 Q Now, you're an M.B.A.

11 A Yes.

12 Q There are ways for private firms who have to
13 incur some costs to spread them out over time,
14 depending on how they would go about doing that,
15 whether it's a hardware or a software cost, have there
16 not? So we're not looking at a cost that's solely
17 accounted for in a one-year basis.

18 A That's correct.

19 Q In NAA-19, you gave us a figure of about 4.4
20 billion DALs, is the figure that you used to estimate
21 standard mail revenues.

22 A Yes. That's the answer.

23 Q Do you happen to know how many DALs Advo
24 mails on an annual basis?

25 A I would say it's a large fraction of that

1 number based on some information that I saw from an
2 exhibit that Advo presented in the last rate case.

3 Q In Advo's press release announcing third-
4 quarter results on August 2 of this year, you
5 mentioned -- I believe I read it correctly -- that it
6 had mailed about 1.1 billion shared packages in one
7 quarter alone. I'm going to ask you to accept that
8 subject to check. But if you extrapolated that number
9 over the year, one might assume that one company alone
10 could mail at least approximately 4 billion DALs, at
11 least. Does that make sense to you?

12 A I don't know. I can confirm that if one
13 company uses a billion detached address labels in one
14 quarter, multiplying it by four might give you one
15 estimate for the year. I do not know Advo's business
16 well enough to know whether they use detached address
17 labels with every single one of their shared mail
18 pieces. The two may not be equivalent, but I don't
19 have that information.

20 Q All right. Let's assume 4 billion DALs
21 converted to on-piece addressing, thus avoiding the
22 one-and-a-half-cent surcharge. How much revenue loss
23 would that be?

24 A Sixty million, I think. The calculation on
25 the top of my head --

1 Q That was the number I got.

2 A Okay. Good.

3 Q Now, I believe you said, in response to an
4 interrogatory from us, that the one-and-a-half-cent
5 DAL surcharge was not based on any particular cost
6 study. Is that right?

7 A That's correct.

8 Q You said in NAA-3 that it was an amount that
9 was believed adequate to provide a significant
10 incentive to encourage on-piece addressing. How do
11 you perceive it to have that effect?

12 A Well, the price, the price signal. It was
13 perceived that it may be large enough to get some
14 mailers to switch. There was some discussion within
15 the pricing office, and this was the number that --

16 Q Was that ultimately your decision, or are
17 you presenting the collective wisdom of the Postal
18 Service on that issue?

19 A All of the pricing that I propose is the
20 pricing of the Postal Service, and it reflects,
21 whether it originally came from me or was suggested to
22 me or otherwise, I am sponsoring the Postal Service's
23 pricing.

24 Q That's fine. I have one last line of
25 questions, which actually I'm doing as a courtesy for

1 our colleague, Mr. Straus, who cannot be here today.
2 He said he had a question, and I thought, you know,
3 I'm interested in the answer to that question, too, so
4 I will ask that for you. Could you turn to AAPS-2,
5 please? Do you have it?

6 A Yes, I have it.

7 Q Okay. Here, you were asked by AAPS how the
8 Postal Service considered the impact of changes in the
9 ECR saturation rates on enterprises in the private
10 sector engaged in the delivery of mail matter other
11 than letters.

12 The first question -- have you had a chance
13 to review your answer?

14 A If you'll give me a minute to complete.
15 Okay. I've reviewed it.

16 Q First question: Did you understand that
17 question to refer to private delivery firms, alternate
18 delivery firms, nonmailing delivery firms?

19 A Do you mean --

20 Q The effect of the saturation rate proposal
21 on those private firms that do not mail.

22 A That do not mail?

23 Q Yes. They are private delivery firms,
24 alternate delivery firms that might compete with
25 mailers.

1 A I understood it to refer to firms that would
2 engage in delivery not so much of items like parcels
3 but of items like fliers and other things like that.

4 Q Are you familiar with the term "alternate
5 delivery companies"?

6 A Yeah.

7 Q So you understood his question to ask you
8 the effect of your rate proposals for saturation rates
9 in this instance on private delivery firms, alternate
10 delivery companies.

11 A Okay.

12 Q Okay? And your response, in part, compared
13 said the proposed increase for saturation flats --
14 well, put it this way. You answered the question by
15 way of comparing the proposed increases for saturation
16 mail with or without the DAL surcharge to the subclass
17 average increase, essentially.

18 A Yes.

19 Q Okay. The question is this: How does
20 comparing the proposed rate increases for saturation
21 mail to other mail allow you to evaluate the effect of
22 the rate change on private delivery firms that do not
23 use mail?

24 A In this particular circumstance, what we are
25 looking at is, in some sense, a movement in rates over

1 time. The existing rates have the presumption of
2 being fair and reasonable and not imposing an unfair
3 competition on such providers of alternate delivery
4 service.

5 In the answer I gave, I said that we were
6 proposing, in the case when the saturation mailers
7 would continue to use detached address labels, we were
8 proposing rates that were, in fact, higher than the
9 subclass average. I was pointing out the fact that we
10 did not attempt to hold the rates down in order to
11 engage in any kind of unfair competition.

12 Q Okay. I want to interrupt you there. I
13 think that I would agree with you that comparisons to
14 subclass average increases may help one tell if the
15 Postal Service is targeting private delivery companies
16 in some way, but I was wondering if it actually allows
17 you to assess the effect on private delivery firms.

18 A I did not do a study, or this is not a
19 study, of the impact on specific firms. We didn't do
20 any studies.

21 Q Does the Postal Service assume that if
22 saturation mail receives an average increase, then the
23 alternate delivery industry will not be materially
24 harmed?

25 A My understanding is that the Commission's

1 view on the subject is that the Commission views it as
2 trying to preserve competition and not necessarily to
3 preserve competitors. If we do not unfairly target
4 alternate delivery people in our pricing, and if there
5 are some alternate delivery companies that are not
6 able to compete, then the Commission may take that
7 into consideration, but we don't feel that we are
8 compelled to forego reasonable rate increases because
9 there may be some companies out there that find it
10 difficult to compete with that.

11 Q All right. So, to rephrase my question,
12 then, the Postal Service takes the position that if
13 saturation mail receives an average increase, then
14 competition is likely not to be materially harmed.

15 A The process of competition -- I wouldn't
16 necessarily be so restrictive because one could then
17 say that, well, if you had some little increment for
18 saturation mail that was some little increment below
19 the subclass average, that would be prima facie
20 evidence that there was harm, but I think other
21 evidence would have to be supplied.

22 MR. BAKER: With that, I'll let Mr. Straus
23 take that up on his own on some future occasion, and I
24 have no further questions for the witness. Thank you.

25 CHAIRMAN OMAS: Thank you, Mr. Baker.

1 Parcel Shippers Association, Mr. May.

2 MR. MAY: Thank you, Mr. Chairman.

3 CROSS-EXAMINATION

4 BY MR. MAY:

5 Q Mr. Kiefer, I would like to ask you some
6 questions about the data that underlies your standard
7 mail parcel proposals. If you'll refer to lines 24
8 through 27 on page 17 of your testimony, there you
9 note that a benefit of your proposal will be to
10 establish parcel-specific rates and standard regula:
11 is that "it gains visibility for these parcels in the
12 Postal Service's cost and volume reporting systems
13 Because of this enhanced visibility, we will expect to
14 have much better information on which to base pricing
15 decisions for parcels in the future."

16 That statement seems to suggest that the
17 data you are using to develop your standard regular
18 parcel rate design in this case are, to put it mildly,
19 less than perfect. Is that correct?

20 A All data I've used is less than perfect for
21 anything. We don't have perfect data.

22 Q Well, but it is a lot less than the "better
23 information" that you're going to get in the future.
24 Is that correct?

25 A We hope to be able to improve our data.

1 Q Now, is data uncertainty one reason that the
2 Postal Service often proposes less than 100-percent
3 pass-throughs for new rate categories?

4 A That is among the reasons that we sometimes
5 propose, yes.

6 Q Would data uncertainty be a reason to pass
7 through less than 100 percent of the flat parcel cost
8 differential in this case?

9 A I'm not sure that that is necessarily the
10 case. I think we want to look at a variety of
11 factors, including what the cost data suggest, the
12 amount of rate mitigation that we may have already
13 engaged in our proposal that's inherent in the
14 proposal. We may also want to look at factors,
15 whether, for example, a particular category is, in
16 fact, producing a positive net contribution as well.

17 Q But since you have conceded that, indeed,
18 when you design new rate categories, the uncertainty
19 of the data because it's brand new and going to be in
20 the future often is a reason that the Postal Service
21 will propose less than a 100-percent pass-through of
22 the cost differences. You've conceded that, a reason.

23 A It may call for a lower pass-through than we
24 might otherwise, but in the case of flats, parcels, I
25 don't like to use the word "pass-through" for a

1 nonwork-sharing type of cost differential. The cost
2 recognition may be appropriate, even if one calculates
3 and finds that there is a ratio which is over 100
4 percent.

5 Q Isn't it the case that one of your
6 objectives in this new rate design is to recover more
7 of the cost differences between flats and parcels than
8 you were able to do in the past under your surcharge?

9 A It was to be able to collect more revenue
10 relate to costs for parcels. It wasn't necessarily
11 focused on simply relative to flats. It was in and of
12 itself. We looked at the costs of parcels, such as we
13 were able to get it, and we were trying to make, if we
14 could, a positive net contribution.

15 Q Well, in other words, it's okay for the
16 Postal Service to propose somebody get less than 100
17 percent of the cost avoidance, but it's not okay for
18 that mailer to get less than 100 percent of the cost
19 difference between a flat and a parcel. That's not
20 okay.

21 A I didn't say whether it was okay or not
22 okay. I was saying that there are a number of
23 considerations that go in in determining what rate we
24 should propose, let's say, for parcels, and we don't
25 automatically go forward with the presumption that the

1 absolute unit contribution for parcels should be
2 identical to the absolute unit contribution for --

3 Q Was one of your considerations how reliable
4 the data is?

5 A Yes.

6 Q Well, haven't you conceded that this data is
7 not very reliable compared to what you expect to have
8 in the future?

9 A What I've said was that I think that we
10 might be able to get better data, and I've also had a
11 considerable reduction in our mitigation in the rates
12 that one might otherwise propose for parcels, had we
13 had, let's say, equally good data for parcels as for
14 other.

15 Q Mr. Kiefer, your testimony is, "We will
16 expect to have much better information on which to
17 base pricing decisions for parcels in the future," not
18 we might. It's that you expect to have not better,
19 but much better. Doesn't that necessarily imply that
20 the data you're using for rate decisions in this case
21 is not all that good if, in the future, you're going
22 to get much better information?

23 A I wouldn't characterize it that way. It
24 would be a lot better, but not that what we have is no
25 good, no.

1 Q Well, your characterization is that it's
2 going to be much better. So if it's going to be much
3 better, then this stuff must be much worse. You can't
4 have it both ways, can you? If the data is going to
5 be much better than the data we have now, it's much
6 worse, is it not?

7 A Would you prefer that I strike that word
8 "much" from my testimony?

9 Q It's your testimony.

10 A If you would prefer --

11 Q If it's convenient for you because you can't
12 answer the question, can you change your testimony? I
13 don't think you can.

14 MS. McKENZIE: Objection, Mr. Chairman. Mr.
15 Mays is arguing with the witness. He has already
16 answered that he didn't think that the data was much
17 worse or unreliable. You can go back and forth a
18 while on this.

19 MR. MAY: Mr. Chairman, the testimony of
20 this witness is that the future data will be much
21 better. Now he wants to remove "much" from his
22 testimony so that he doesn't have to concede that the
23 converse of having much better is that the present is
24 much worse.

25 You can talk to your counsel about whether

1 you're going to change your testimony, but for the
2 moment --

3 THE WITNESS: I believe that the data that i
4 used was reliable for my purposes.

5 BY MR. MAY:

6 Q Well, I have some more questions about the
7 data. If you'll turn to your response to PSA-USPS-36-
8 7. There you state, "An unknown number of standard
9 mail pieces that have parcel characteristics are not
10 identified as such in the RPW by shape report totals.

11 In contrast, the principal source of mail-
12 processing information, the IOCS, identifies the shape
13 of standard mail based on its physical
14 characteristics. So there are cases where IOCS would
15 identify a standard mail item as a parcel when the RPW
16 reported it as a flat.

17 So the costs for some, to use your word,
18 unknown number of standard mail flats, as recorded by
19 RPW, are currently being counted as parcels. Is that
20 correct?

21 A Yes. Well, they are being counted as
22 parcels in our IOCS system.

23 Q Now, given that the number of standard mail
24 flats whose costs are treated as partial costs is, as
25 you say, unknown, would you agree that the

1 overstatement of the unit cost of standard mail
2 parcels is also unknown?

3 A Our cost information people in the Postal
4 Service do make adjustments for this. The number is
5 not precisely known. It is correct to say it's
6 unknown, but that does not mean that it's wildly
7 unknown. We're unable to make any kind of reasonable
8 adjustments.

9 Q Did I ask you whether it was wildly unknown?
10 I asked you, if given the fact, according to your
11 testimony, the number of parcels that are
12 misidentified is unknown, doesn't it necessarily
13 follow that the overstatement in the unit cost of
14 standard mail parcels, since you don't know how many
15 are miscounted, is also unknown, not wildly unknown;
16 unknown.

17 A There are, as I said before, there are some
18 adjustments made to try to reconcile between the two.
19 The result has a margin of error. As economists, we
20 deal with unknowns all of the time. There is always a
21 margin of error in any of our estimates, so the
22 precise value of economically viable estimates is
23 always unknown. We can come up with an estimate, and
24 there is a certain amount of error that we have to
25 accept with that, and we have to go forward with the

1 fact that these numbers are unknown, but that doesn't
2 mean that they are unreliable or unusable.

3 Q Is this the sort of parcel that's causing
4 you problems, an AOL DVD?

5 A That is one of the types of items that may
6 be costed in one way and counted, for RPW purposes, in
7 another.

8 Q There are a lot of these in the system,
9 aren't there?

10 A I've received some like that. I don't know
11 whether that means that there is a lot of them.

12 Q You have no idea of how many of these are in
13 the system.

14 A AOL --

15 Q Not just AOL, but these kinds of parcels
16 that get handled as a parcel and get rated as a flat.

17 A I've seen estimates that there are several
18 hundred million of them.

19 Q So that's not just an insignificant amount.
20 But, again, you don't know that it's just several
21 hundred million that might be misrated, do you?

22 A I don't know exactly how many might be, no.

23 Q Now, you are aware that Witnesses Smith and
24 Kelley did make attempts to correct the problem, and I
25 think that's what you alluded to.

1 A Yes. That's what I was alluding to.

2 Q Despite those attempts in developing your
3 rate design, do you think their unit standard mail
4 parcel costs should be viewed more as guides in
5 selecting appropriate pricing rather than as precise
6 estimates of standard mail parcel costs?

7 A Well, I think they are the best estimates
8 that they are able to come up with. They can also be
9 used to guide the appropriate pricing. I don't see
10 that the two are in conflict with each other.

11 Q Do you regard it more as a guide or as a
12 precise measure of what they actually cost?

13 A I don't know the level of precision in their
14 estimates. When you say precise numbers, "precision"
15 is a term that can be based on estimates, statistical
16 sampling. Otherwise, one can come up with estimates
17 and standard errors and ranges.

18 Q Let me direct you to your own testimony.

19 A Sure.

20 Q Page 18, line 18, I quote: "I use these
21 costs as guides." That's your testimony, that you use
22 them as guides. Isn't that correct? Isn't that what
23 your testimony says?

24 A Yes.

25 Q Thank you.

1 A But that was not solely because of a
2 concern over the accuracy. In pricing, we take into
3 account not just costs and cost differences, but we
4 take into account other factors like, for example, the
5 impact on mailers in developing rates.

6 Q Well, would you turn to -- I have it here
7 for you, and I'll give it to the Commission, because I
8 don't think you have it, which is Witness Smith's
9 Attachment 14 to his testimony, T-13? Now, if you've
10 had a chance to examine that, this attachment says
11 that it show unit test year mail-processing costs by
12 subclass and shape. Is that correct?

13 A Yes.

14 Q Now, you are aware that Witness Smith
15 estimated that the unit mail-processing costs of
16 standard ECR parcels is approximately \$24.50. Do you
17 see that there?

18 A I see the figure there.

19 Q Okay. And also I think, in one of your own
20 answers to Question 5, you talked about other
21 anomalous results of standard ECR parcels: a \$30 unit
22 cost for standard ECR basic parcels and a \$6 unit cost
23 for standard ECR parcels. Do you recall that answer?

24 A I do recall some large numbers around that
25 \$30 range.

1 Q And there are other results in Mr. Smith's
2 testimony. If you look at his response to T-13-1 --

3 A Excuse me.

4 Q Yes. I'll get that for you.

5 A Okay. I didn't have it. Thank you.

6 Q This is Mr. Smith's statement of other mail-
7 processing unit costs for parcels, is it not? It's
8 Table 1.

9 A You said for other --

10 Q Yes. For various mail categories.

11 A Okay. For various categories. Okay.

12 Q And there, Mr. Smith estimates that the unit
13 mail-processing costs for first-class mail, presort
14 parcels is \$3. Right?

15 A First-class presort -- okay -- parcels and
16 the letters in the small parcel category. Yes.

17 Q And then he also estimates the unit mail-
18 processing costs for periodicals, outside county
19 parcels, is \$26 a piece. Is that correct?

20 A I see that.

21 Q Now, all of these results are fairly
22 anomalous results, would you not say?

23 A They are not what I would have expected. I
24 guess I could say that.

25 Q Well, Mr. Smith, I believe, said that he

1 thought they were anomalous, and, I gather, you don't
2 disagree with that characterization of a lot of these
3 results, do you?

4 A No.

5 Q Am I correct that the data sources used by
6 Mr. Smith to estimate the unit costs for standard
7 regular parcels are the very same as those that
8 produced these anomalous results?

9 A You would have to ask Mr. Smith on that.

10 Q You don't know, even though you used his
11 numbers.

12 A I did not get these numbers directly from
13 Mr. Smith. I got them, for parcels and for flats, I
14 got them from other witnesses who have taken
15 information from Mr. Smith.

16 Q But they have taken the information from Mr.
17 Smith.

18 A I cannot testify today as to whether Mr.
19 Smith got two different sets of numbers from one or
20 two different sources. That's what I wanted to say.

21 Q Okay. To your knowledge, is this the first
22 rate case that Mr. Smith's method has produced
23 anomalous results like this? For example, I would
24 like to refer you to the presiding officer's
25 Information Request No. 10, Question 2, which was just

1 recently issued.

2 Now, if you would look at Question 2 of the
3 POIR, the Commission makes reference to the fact that
4 the results in the last couple of cases for first-
5 class mail presort parcels or standard mail parcels or
6 the unit cost for first-class mail presort were \$2.70
7 in R-2001 and now are \$2.89 in R-2005 and that the
8 unit cost of standard mail ECR parcels was \$2.06 in R-
9 2001 and is \$8.93 in R-2005. So is it the case that
10 the Commission itself was curious about these
11 anomalous results that appear in previous testimony :
12 Mr. Smith?

13 A It appears so.

14 Q Could I refer you now to Post Com/USPS-1?
15 And I believe this has already been referred to today,
16 but if you don't have it handy --

17 A A Post Com interrogatory to me?

18 Q No, to the response of the United States
19 Postal Service to the Post Com interrogatory.

20 A Okay.

21 Q Now, you'll see in that interrogatory --

22 A May I have a moment --

23 Q Please. Go right ahead.

24 A -- to review this? Okay.

25 Q And there, the Postal Service was asked to

1 provide any studies or analysis that the Postal
2 Service performed comparing or evaluating the
3 reliability of CRA costs by shape within a particular
4 subclass with regard to a shape that comprises only a
5 small portion of the total volume in that subclass,
6 including any studies or analyses concerning the
7 extent of sampling or nonsampling error associated
8 with any such studies. The response was that the
9 Postal Service has not performed studies or analyses
10 to evaluate the reliability of CRA costs by shape. Is
11 that correct? Do you disagree or agree with that?

12 A I have no information to either agree or
13 disagree. I mean, I take it as a reliable response.
14 I personally don't know -- I have no independent
15 knowledge on which to evaluate -- rates.

16 Q Well, you previously testified that just
17 because the data you were using was not perfect and
18 that perhaps you were going to get better data did not
19 mean it wasn't reliable. Isn't that your testimony
20 today?

21 A Yes.

22 Q Well, now we have the Postal Service saying,
23 no, they have no studies to test the reliability of
24 CRA costs by shape. Does that shake your confidence
25 in the reliability of the data, however imperfect it

1 may be?

2 A Not necessarily.

3 Q Why not?

4 A Well, what this says is the Postal Service
5 has not done studies specifically focused on testing
6 the reliability, but that doesn't mean necessarily
7 that the data is not reliable or that just because we
8 haven't tested something doesn't mean that you
9 wouldn't rely on it.

10 Q If you've never studied or tested to see
11 whether it's reliable, then it's just an act of faith
12 that it is reliable.

13 A I think it may be more a matter of reasoned
14 judgment that maybe other methodologies or the way
15 data is put together is done in a reliable fashion.
16 It may not be that every component of something or
17 every specific step has gone through a specific,
18 focused reliability test for somebody to conclude that
19 the information, on the whole, is reliable.

20 Q And that's in the face of the fact that
21 maybe 200 million pieces of these were miscounted,
22 both for volume and costs, and there are no
23 reliability studies to test that. It still doesn't
24 give you any discomfort that you're basing rate
25 increases on these kinds of costs.

1 A As I said before, my understanding is that
2 Mr. Smith and others have done adjustments to take
3 into account these volumes, that that data is the best
4 we have, and it's what we need to rely in order to be
5 able to do our pricing.

6 Q If we have no reliability studies, what
7 confidence can we place in Mr. Smith's and Mr.
8 Kelley's adjustments?

9 A I think we're getting into the point where
10 you may want to question the cost witnesses about
11 this.

12 Q I will, but I'm questioning you, as a
13 pricing witness, of how confident you felt when you
14 have gigantic rate increases based upon costs whose
15 reliability you can't vouch for. I'm asking you that.

16 A In the course of my work as an economist and
17 as a pricer, one has to rely on the work of others
18 without standing over their shoulder and checking.
19 Mr. Smith is a competent analyst, and I rely on the
20 work he produces. We all do.

21 It is impossible for the Postal Service
22 pricing witnesses to trace every single input they get
23 all the way back to the IOCS cost collectors. At some
24 point, one has to rely on the methodologies of
25 competent individuals. I have had no reason

1 whatsoever in my time with the Postal Service to think
2 that the information produced by these witnesses was
3 not reliable.

4 Q Is this the first time you found out the
5 Postal Service's response to that interrogatory, that
6 they had never conducted any reliability tests? Did
7 you know that?

8 A Well, this response is to a specific
9 question, and I don't know what other reliability
10 studies were done, but in response to this specific
11 question, they didn't do specific reliability studies,
12 doesn't mean that they may not have relied on
13 methodologies which are themselves known in the
14 economics profession to be reliable.

15 Q You don't know whether that's the case or
16 not.

17 A No, I don't.

18 Q Thank you. I would like you, furthermore,
19 to take another look, going back to your response to
20 PSA-T-36-7. You state there: "Furthermore, because
21 of the enhanced presorted and drop-ship categories
22 being proposed, the Postal Service will have
23 reasonably accurate, standard mail parcels dated by
24 presort, machinability, and entry levels."

25 Again, that speaks in the future, that it

1 will have. Again, your statement seems to imply that
2 the volume estimates by presort, by machinability, and
3 entry level, upon which you will base your rate design
4 in this case, are only "approximations" of how parcels
5 are currently being prepared. Am I correct?

6 A They are estimates which I received from
7 Witness Loetscher. If you need to know more about how
8 he derived those, I think you probably should speak to
9 him.

10 Q In this response to PSA Interrogatory 28,
11 Mr. Loetscher lists the following exceptions that he
12 made in the construction of the initial distribution
13 of machineable parcels across rate elements, and then
14 he also lists the assumptions made in the construction
15 of the initial distribution of nonmachinable parcels
16 across rate elements. Is that correct?

17 A Yes. That's my take on this.

18 Q Thank you. Test year, after-rates parcel
19 preparation and entry could be substantially different
20 than it is today, couldn't it?

21 A If that were the case, then what would be
22 affected would not be the rates; it would just be the
23 amount of standard mail revenue that we would collect.
24 So, again, as I was discussing with Mr. Volner this
25 morning, the way these pieces end up being distributed

1 down to the various categories has an impact on the
2 amount of test-year, after-rates revenue that is
3 calculated, and we are in the situation where the
4 total number of parcels is actually relatively small,
5 is a fraction of standard mail volume so that it is
6 possible that if our estimates of just how many pieces
7 fill each of these rate cells is a bit off, it will
8 not have an appreciable effect on the estimated
9 standard mail revenue.

10 Once again, these did not have a substantial
11 impact on the way the rates were chosen. So this is
12 an issue in estimating test-year, after-rates
13 revenues, not rate design.

14 Q In particular, given the enhanced work-
15 sharing incentives, don't you think that standard mail
16 parcels will be more work shared in the test year than
17 they have in the past?

18 A It is possible. It certainly is a
19 possibility, but, again, if that happened, there would
20 be perhaps a reduction in the estimated test-year,
21 after-rates revenues, but given the fact that
22 increased work sharing was going on, there would be an
23 offsetting, to some greater or lesser extent,
24 reduction in costs.

25 Q Well, given the fact that, indeed, you're

1 passing through less than 100 percent of the cost
2 savings from this additional work sharing, would you
3 not then have a windfall revenue, a revenue windfall,
4 if that were to develop because if you're only going
5 to pass through 50 percent of the work-share savings
6 in the form of a rate discount, and there is a big
7 shift to that discount category, then you're going to
8 get a windfall over and above what you would expect in
9 terms of net revenue. Isn't that the case?

10 A Could you point to me where you came up with
11 that number?

12 Q Sure.

13 BY MR. MAY:

14 Q I have just handed you a work paper, STD Reg
15 dash-26. If you will look at the various blocks
16 there, would you confirm for me that the discounts for
17 the following are based upon less than full pass-
18 throughs? For example, a 60 percent pass-through for
19 BMC pre-sort machinable parcels. Is that correct?

20 A Yes.

21 Q A 55 percent pass-through of cost savings
22 for five-digit pre-sorts on machinable parcels?

23 A Yes.

24 Q Eighteen percent pass-through for ADC pre-
25 sort of non-machinable parcels?

1 A Yes.

2 Q And 18 percent for three-digit pre-sorted
3 non-machinable parcels?

4 A Yes.

5 Q Given those low pass-throughs, am I right
6 that test year after rate finances for parcels could
7 be better than you project?

8 A Let me try to put these into I think an
9 appropriate context. Let's take a look at the non-
10 machinable parcel categories, and in fact I did
11 actually address this this morning when I was having a
12 colloquy with Mr. Volner.

13 If you look at the, on the left side where
14 it shows the 18 percent which is my pass-through
15 assigned, we have for the difference between the ADC
16 and the mixed ADC is 83.8 cents. For a three digit
17 it's an additional 83.79 cents. If you turn to the
18 first page at the top you will see that I started out
19 with a basic rate per piece for non-machinable parcels
20 of 80 cents plus a non-machinable differential of 10
21 cents. Then a per pound element of about a dollar.

22 Then if you look at the minimum per piece
23 rate for a non-work shared or minimally work shared,
24 non-machinable, minimum rate per piece parcel that's
25 not drop shipped, it's \$1.10.6.

1 With the cost that went into a non-
2 machinable piece which one could see, it's actually on
3 the input sheet of more than two dollars, what I did
4 was I held down the actual cost of the, the actual
5 price of this minimally work shared piece down to
6 about \$1.11.

7 So already what we have is a compression of
8 the least work shared piece starting with \$1.10. I
9 cannot then take off 80-something cents for the next
10 step down and then a further 80 cents. By the time I
11 get two steps down I'm into negative pricing.

12 Q I understand. You said that before during
13 previous cross-examination. What has that got to do
14 with whether, in the answer to my question, which is
15 if there is greater work sharing than you anticipate
16 will that not create a windfall?

17 If somebody's going to save a dollar and
18 you're only paying him 50 cents of the dollar for the
19 work sharing, doesn't that create a 50 cent windfall?
20 Irrespective of how much money you're losing on the
21 basic rate?

22 A Could you repeat that question?

23 Q If indeed there is more work sharing than
24 you have anticipated, since you are only passing
25 through 50 percent of the cost savings on that

1 additional work sharing, for example somebody saves a
2 dollar because of the work share and you only pay him
3 a 50 cent reduction in the rate, then you have
4 necessarily made 50 cents on that parcel, that new
5 work shared parcel. Irrespective of how small a
6 recovery, if any, on the basic piece from which the
7 discount is calculated.

8 A I wouldn't necessarily agree with that. For
9 example, if you're losing a dollar on the least work
10 shared piece and if you only pass-through 50 cents of
11 the other dollar in saving that you were saying, maybe
12 what you'd be only doing is losing 50 cents on the
13 next shared piece.

14 Q Is that not a process of the Postal
15 If the process causes a conversion of more work
16 sharing, if the Postal Service only loses 50 cents
17 rather than a dollar, is that not a net benefit to the
18 Postal Service? That improves their overall financial
19 position over what you projected.

20 A I will accept that that is an improvement in
21 the financial position of the Postal Service.
22 Windfall is the area that I got stuck on. This is
23 hardly what I would consider a windfall, if we're
24 losing less money.

25 Q But you're not losing it on the work shared

1 piece. You're making money on the work share piece.
2 You're losing it on the other stuff whose rates you've
3 constrained.

4 A It's not clear to me that that statement is,
5 that we have the -- It's not clear to me that that's
6 the case, but the point is I will agree to the fact
7 that we may be, if we have more work sharing we may be
8 in a better financial situation because of the reduced
9 pass-through than we would have otherwise. I can
10 concede to that characterization.

11 Q Fine.

12 Now I'd like to discuss the magnitude of the
13 rate increases you're proposing for standard mail
14 parcels.

15 If you'll turn to your response to
16 PSA/USPS-T-36-2, am I correct that in your answer
17 there you said that you are proposing to increase the
18 average rate for standard mail parcels from 77.1 cents
19 to 114.6 cents. Is that correct?

20 A Yes.

21 Q Is that what you say there?

22 A Yes, that's the gist of --

23 Q Isn't that an average increase of about 50
24 percent?

25 A It's perhaps in that range.

1 Q If you'll turn to work paper Standard Reg
2 dash-27, which I will supply you.

3 (Pause).

4 A Thank you.

5 Q I'll give you a chance to scrutinize it.

6 A Okay.

7 Q The caption of this work paper is Standard
8 Mail Commercial Regular and Non-Profit Regular Sample
9 Rate changes.

10 Is it correct that this worksheet shows that
11 you're proposing an 82.8 percent rate increase for
12 non-machinable origin-entered mixed ADC parcels that
13 weigh 3.3 ounces or less?

14 A Correct.

15 Q That's 82.8 percent increase, correct?

16 A Correct.

17 Q You're proposing a 62.7 percent rate
18 increase for machinable origin-entered mixed BMC
19 parcels that weigh five ounces, correct?

20 A That's correct.

21 Q And you are proposing a 54.5 percent rate
22 increase for eight ounce machinable BMC parcels that
23 are entered at the DBMC, is that correct?

24 A Eight ounce, DBMC. Okay. Yes.

25 Q Is that correct? 54.5?

1 A Yes.

2 Q Have you personally ever proposed rate
3 increases that large for any type of mail prior to
4 this case?

5 A I don't recollect. I've proposed some
6 fairly large increases in some rates in the past but I
7 can't say absolutely. But it was not common.

8 Q If you haven't, why not?

9 A I'm sorry?

10 Q Why haven't you proposed rate increases like
11 80 percent?

12 A Eighty percent?

13 Q Yes. Which you are proposing in this rate.

14 A I think we take all factors into
15 consideration. If there is a need to increase the
16 rates to cover costs then we will increase rates
17 sometimes significantly.

18 Q Has it ever amounted to anything like 80
19 percent? Has the Postal Service, forget yourself, has
20 the Postal Service to your knowledge ever proposed a
21 rate increase of that dimension? For any reason?

22 A I have not scrutinized all of the rate
23 increases done by the Postal Service. I would not be
24 surprised to find out that it had.

25 Q But to your knowledge, as far as you know,

1 it never has.

2 A Well, I cannot recollect examples.

3 Q I'd like to refer you to the Postal
4 Service's response to PSA/USPS-T-42-1 which discusses
5 the Postal Service's --

6 A T-42?

7 Q USPS, and I'll get it for you.

8 A Thank you.

9 (Pause).

10 CHAIRMAN OMAS: Mr. May, before you proceed
11 with this, about how much longer do you have with this
12 witness?

13 MR. MAY: About five minutes, 10 minutes.

14 CHAIRMAN OMAS: All right. We'll take a
15 break after that. Thank you.

16 BY MR. MAY:

17 Q In this interrogatory the Postal Service is
18 responding to questions concerning the evolutionary
19 development initiative, otherwise the acronym NDND.
20 Are you generally aware of that initiative?

21 A Generally.

22 Q If you'll look at page five of the response.

23 A These pages are not numbered, can you --

24 Q I'm sorry. If you'll just count up to five
25 on your fingers.

1 (Pause).

2 Q To just point you to what you should be
3 looking for, the Postal Service indicates, "There is a
4 need for RDCs beyond the potential conversion of 21
5 DMCs and 7 ASFs. The exact number of RDCs has not been
6 determined and will continue to change over time. In
7 general terms at the end of the conversion process
8 there may be roughly 28 to 100 RDCs."

9 Are RDCs Regional Distribution Centers? Is
10 that what that stands for?

11 A Yes.

12 Q Is it possible that in the test year which
13 doesn't begin until presumably next spring some time,
14 in terms of when the rates are actually in effect, is
15 it possible at that time, the term during which these
16 rates will be in effect, that there will be more entry
17 points for DBMC parcels than there are today including
18 a number of RDCs?

19 A I can't actually speak to that. There is a
20 wide variety of decisions that have to be made. I
21 can't really address that question.

22 Q In determining the price, for example, of
23 these parcels going to the DBMC, you gave no
24 consideration to the fact that the mailers may have
25 substantially increased costs for getting their

1 parcels to a proliferation of RDCs that don't exist
2 now and may have to do additional preparation
3 requirements. You gave no consideration to that
4 additional cost that could be visited upon the mailers
5 during the time when these rates you're proposing are
6 in effect.

7 A As I said before, I can't address a
8 hypothetical like that. Whether they would be in place
9 or not in place, what the mail rules would be, what
10 the requirements would be, whether these rates would
11 apply, there are many decisions that the Postal
12 Service has not addressed. Had not addressed in a way
13 that would enable me to incorporate that information
14 into the rate.

15 Q Should this occur there are these additional
16 costs. Those would be in addition to the 50 percent
17 increase you're proposing and if you didn't take into
18 account these additional costs the mailers may have to
19 experience in addition to the 50 percent, how is it
20 possible that you were able to test the impact
21 criteria that's spelled out in the postal
22 reorganization?

23 A That's based upon a whole sort of pyramid of
24 hypothetical assumptions about what will be in place
25 and what won't be in place. I don't have the

1 information to be able to address that and I don't
2 know how the Postal Service will attempt to address
3 the potential additional cost that might be required
4 of mailers as it unfolds its end program. We're
5 getting into rather speculative territory here now.

6 Q Mr. Kiefer, in your other piece of
7 testimony,
8 T-37, if you don't have it in front of you I have the
9 relevant pages.

10 A I have it in front of me.

11 Q In the excerpt from your T-37 testimony,
12 pages 17 and 18, I noticed there you state that you
13 imposed rate change constraints of 20 percent for
14 parcel select and 30 percent for inter-BMC and intra-
15 BMC. Is that correct?

16 A That's what it says.

17 Q That's what you say, isn't it?

18 A Okay. That's what this paper says, yes.

19 Q You are proposing, you said I had the
20 constraints, "there could be no greater increase in
21 parcel select than 20 percent," that's the highest
22 increase; and the other constraint was an intra-BMC,
23 no increase greater than 30 percent." That's how you
24 designed parcel post rates.

25 A Yes, those percent caps are on a, I would

1 point out, are on a much much larger rate base.
2 They're lower percentages but they're on a much higher
3 rate base.

4 Q You mean in numbers of volume or just the
5 rate itself?

6 A No, I guess if we're talking about something
7 that costs ten cents and you increase it by five cents
8 you're asking somebody to pay an additional nickel.
9 If you're talking about something that costs five
10 dollars and you're asking them to do a ten percent
11 increase, that's 50 cents.

12 Q Suppose you had proposed that first class
13 mailers pay a 50 percent increase.

14 A I'm not the first class witness.

15 Q That's only 15 cents. Do you think that
16 would cause a firestorm in the country

17 A I'm not going to speculate about what is
18 going to happen among the first class mailers.

19 Q That's only 15 cents. That's a mere
20 pittance according to you in terms of what the parcel
21 shippers are facing.

22 A Mr. May, you've got me testifying from
23 standard mail over to parcel post. Why don't we not
24 go into first class as well.

25 Q Well tell me this. Why did you impose those

1 constraints in parcel post? If you don't remember,
2 your reasons are given on pages 17 and 18.

3 A To constrain the rates such that, because
4 some of the rate increases would be very substantial
5 and we wanted to keep the additional costs to mailers
6 down to a reasonable level.

7 Q So parcel post rates in excess of 20 or 30
8 percent are generally unacceptable, but they just are
9 a jumping off point for standard regular parcels. How
10 do you square that?

11 A As I said earlier, when you look at impacts
12 you have to look at not just a percentage increase or
13 not just an absolute increase, you have to look at
14 both of them together. That's always the way we look
15 at it.

16 Q I yesterday gave a cross-examination exhibit
17 captioned PSA/XE-1 to your counsel and I trust she has
18 shared that with you?

19 A I've seen it.

20 Q So you are familiar with this exhibit, and
21 just to reconstruct what it does, it has a column that
22 says for opposite flat, parcels, it has the total unit
23 cost and then it has the next thing is the unit
24 postage. So that means that for example for a flat,
25 the total unit cost is 27.4 cents and for the amount

1 of postage on that flat it's 34.2 cents. Is that
2 correct?

3 Then we have the same information for a
4 parcel which shows that the total unit cost is 99
5 cents and the unit postage is \$1.14. So if you get
6 the difference between unit costs, between a flat and
7 a parcel, shows that a parcel costs 71.8 cents more.
8 Then for unit postage it says that indeed that even
9 though the parcel costs only 71 cents more than a
10 flat, it's paying 80 cents more in revenue than the
11 flat is. Is that correct?

12 A Yes.

13 Q So just to recapitulate your rate proposals
14 for standard you're proposing a rate increase that
15 averages about 50 percent for standard parcels, is
16 that correct? Averages.

17 A You have proposed that number. I haven't
18 separately done the calculations. I think it's from
19 77 cents to --

20 Q To \$1.14, and the differences multiplied, I
21 think you'll find it's about 50 percent.

22 MS. McKENZIE: I don't think it's 50
23 percent. I think it's a little closer to 30, 32
24 percent.

25 MR. MAY: We'll do the math again.

1 And the difference is what? 77 cents into
2 37 is what?

3 MS. McKENZIE: about 50.

4 MR. MAY: About 50 percent.

5 BY MR. MAY:

6 Q Okay, you said that the rate increase for
7 some standard mail parcels exceeds 80 percent, is that
8 correct?

9 A For certain rates.

10 Q As far as you know, these are the largest
11 rate increases that you've ever proposed and possibly
12 the largest the Postal Service has ever proposed. At
13 least we have no specific knowledge to the contrary,
14 is that correct?

15 A I prefer the second half of your sentence to
16 the first. I mean I don't have specific knowledge. I
17 haven't studied them. But I think I also said I would
18 not be surprised if had I studied them I would have
19 seen larger increases for various rate cells.

20 Q You mean like in parcel post where they have
21 510 cells? One of them might be more? I can assure
22 you that's not the case, but in any event.

23 Additionally, parcel shippers may indeed
24 have to do more work if the whole implementation
25 occurs during the time in which the rates are in

1 effect. That's a possibility.

2 A It is a possibility. How the rates would be
3 applied in that circumstance is --

4 Q And your proposed are based on a pass-
5 through that at least according to the cross-
6 examination exhibit exceeds 110 percent compared to
7 the pass-through in the case of flats. In other
8 words, there is a greater net return of revenue on the
9 parcel than on the flat. Is that not what that
10 exhibit shows?

11 A I'm not sure I would calculate it that way.
12 If you divide the unit postage for flats by the total
13 unit cost you end up with about a 125 percent
14 coverage. If you do the same for parcels it's about
15 116 percent. So on a percentage basis we're not, if
16 you take these figures we're not marking the parcels
17 up at any greater rate than flats.

18 Q Why does this exhibit show that indeed the
19 flat parcel difference is 112 percent?

20 A I'm not questioning the mathematics. I'm
21 trying to say there are several ways to actually look
22 at rate relationships and at rate cost relationships.
23 Given that standard mail as a whole I believe has, I
24 think our standard regular I believe has a cost
25 coverage of 176.5 percent. The fact that if you

1 divide the postage, unit postage for flats by the unit
2 cost and come up with 125 percent, and the parcels,
3 you do the same, you come up with 116 percent --

4 Q Well that's expressed as a percentage.

5 A I'm not terribly disturbed by the amount of
6 contribution we're asking parcels to pay, even though
7 I do acknowledge there is a significant increase in
8 the percentage break.

9 Q Just to finish this, let me have you turn
10 back to page 17 of your testimony.

11 CHAIRMAN OMAS: Mr. May, would you like your
12 cross-examined exhibits placed in the transcript for
13 clarity purposes?

14 MR. MAY: Yes, I move them in for purposes
15 of clarity for the record. I think they will be
16 separately moved into evidence by other witnesses.

17 (The documents referred to,
18 Exhibit Numbers 36-1-4, were
19 received into the record.)

20 CHAIRMAN OMAS: Okay, thank you. I didn't
21 want to forget that.

22 MR. MAY: Thank you, Mr. Chairman.

23 CHAIRMAN OMAS: Proceed.

24 BY MR. MAY:

25 Q On page 17 of your testimony under the

1 subject of parcels you say, "Having a separate rate
2 design for standard mail parcels permits several
3 outcomes. One, it facilitates adjusting prices for
4 standard mail parcels to increase their cost coverage
5 and facilitate a long-run merger of these parcels into
6 a general parcel flat."

7 So are we to understand that one of your
8 motives in having 50 percent increases for standard up
9 to 80 percent increases, is to get rid of standard
10 parcels and to pave the way for the day when you can
11 merge all parcels into one flat? Isn't that what that
12 testimony says?

13 A I'm not sure I would characterize it the way
14 you've said it but the Postal Service management has
15 considered that it may want to simplify its parcel
16 offerings to try to merge parcels together. It has
17 not made any, as far as I'm aware, it has not made any
18 definitive decisions on this but in general I think it
19 wants to harmonize its parcel rates which now are,
20 parcels are spread across many different classes in
21 different ways.

22 I think there is, as I understand it, a move
23 to try to develop a more shape-based processing system
24 and have its product and pricing offerings better
25 reflect that.

1 One possibility might be that there may be
2 merging into a single class, but another possibility
3 might be that they would be harmonized but not
4 necessarily move out of this class.

5 Q Do you think it's legitimate for the Postal
6 Service to come here and instead of proposing a
7 classification change which gets rid of standard
8 parcels and creates one class, that they do it by
9 subterfuge through the device of 50 to 80 percent
10 increases to jack the prices of standard process up so
11 high that nobody will care whether they merge the
12 classes together? Is that a legitimate approach? And
13 does it take due account of the impact criterion in
14 the statute?

15 A Mr. May, if we were trying to do something
16 by subterfuge I doubt I would have actually been
17 saying something like this so openly in my testimony.
18 We are not trying to drive parcels out of standard
19 mail.

20 One of the questions you pointed me to
21 earlier showed that in I believe the test year before
22 rates the average revenue for these parcels was 77
23 cents. If you look at the exhibit that you've given
24 me where the total unit cost was 99 cents, a very
25 simple contraction so that on average we're losing

1 money. It's an important goal for the Postal Service
2 to try to have these mail pieces make a positive unit
3 contribution.

4 Maybe one of the longer term goals might be
5 to try to harmonize these pieces in with other pieces,
6 parcels, that are processed in very similar ways, but
7 there's no trickery here. There's nothing hidden, no
8 hidden agendas. We're telling what may happen down
9 the road, we may want to do that but it may not
10 happen. We're taking things one step at a time and
11 we're not proposing any classification change to get
12 rid of standard mail parcels at this point.

13 Q The premise for your last statement is that
14 these costs are accurate and can be relied on whereas
15 in fact the testimony of the Postal Service itself is
16 that they have no way of assessing costs by shape.
17 They do not know cost by shape. That's the Postal
18 Service's testimony in this case.

19 A Mr. May, that argument cuts both ways. If
20 you're trying to say that that 99 cents is not an
21 accurate characterization of the cost, it could well
22 be \$1.69 rather than \$.99. It isn't necessarily the
23 case that the error is on the bottom side. So it
24 could well be that our \$1.14.6 price, we may still be
25 losing money.

1 Q Don't you think if you're going to ask 50 to
2 80 percent increases for something you ought to be
3 very very sure about the costs rather than just
4 guessing at them?

5 A Mr. May, we use the best information we
6 have. When we go forward with changes we sometimes
7 have to rely on less than perfect information, data
8 sources, et cetera. This happens all the time. We do
9 our best to try to come up with information that is
10 useable, and if we only wait until we have perfect
11 information I'm not sure exactly how we could, for
12 example, move the NFMs out of the automation flats
13 category without these changes.

14 What we're doing is we have to go forward
15 with some form of estimates. They may not be perfect
16 but we have to go with the best we have.

17 Q My question is since that the best you have
18 is none too perfect, doesn't it occur to you that you
19 should have constrained, as you did in parcel post,
20 increases to 20 to 30 percent rather than letting them
21 -- where, by the way, you do have much better data
22 than you do in standard parcels -- rather than coming
23 up with 50 to 80 percent increases based upon data
24 which may be the best you have but is totally
25 unreliable, never tested by any reliability studies?

1 A I disagree.

2 MS. MCKENZIE: Mr. Chairman. Mr. May --

3 MR. MAY: That's a question.

4 MS. MCKENZIE: Yes, it is a question but
5 it's a rather argumentative question. We have covered
6 this ground again and again. I believe the record
7 accurately reflects, repeatedly reflects, that there's
8 an increase of 50 to 80 percent.

9 Now we've been going for about two hours and
10 15 minutes.

11 MR. MAY: I have no more, Mr. Chairman.

12 Ms. MCKENZIE: Thank you.

13 CHAIRMAN OMAS: Thank you, Mr. May.

14 At this point we will take a 15 minute break
15 and we will start with Mr. Olson and ValPak.

16 (Whereupon, a brief recess was taken.)

17 CHAIRMAN OMAS: Mr. Baker?

18 MR. BAKER: Before Mr. Olson begins I
19 believe I neglected to move my cross-examination
20 exhibits into the transcript and I'd like to do so
21 now. The first three already are evidence because
22 they were from witness' library reference. But I
23 think they should be in for clarity. The fourth one
24 is simply admitted for reference at this point.

25 CHAIRMAN OMAS: Without objection, so

1 ordered.

2 (Exhibits Numbers NAA-XE 1,
3 2, 3, and 4 were received in
4 evidence.)

5 CHAIRMAN OMAS: Mr. May, we've already taken
6 care of yours.

7 Mr. Olson, would you please introduce
8 yourself?

9 MR. OLSON: William Olson here appearing for
10 ValPak Direct Marketing Systems, Inc., and ValPak
11 Dealers Association.

12 CROSS-EXAMINATION

13 BY MR. OLSON:

14 Q Dr. Kiefer, you started testifying I
15 believe, before the Commission in 1999 and in the
16 years that you've been appearing here are you
17 basically familiar with the concept of "what if"
18 questions?

19 A Yes. In general.

20 Q Mailers sometimes disagree with the Postal
21 Service proposal, maybe even the Commission might, and
22 try to come up with alternatives and sometimes use
23 information from the Postal Service to develop
24 different "what if's".

25 A Okay.

1 Q Very often when we hold one factor constant,
2 we talk about and test for changes in other factors,
3 we talk about seterus paribus changes, for example,
4 don't we?

5 A I'm familiar with the concept.

6 Q Let's talk about what Mr. Baker just moved
7 into evidence, which is the Cross-Examination Exhibit
8 3, which is your inputs sheet from your work paper
9 WPSTDECRXLS. Do yo have that still?

10 A Yes, I do.

11 Q I think it's NAA-XE-3.

12 On there, we tried to use this work paper to
13 try to test out a few "what if" assumptions. The
14 first test was trying to figure out what would happen
15 if costs were to be increased, so we increased the
16 cost 20 percent and made no other changes in the
17 particular worksheet.

18 A Are you talking about the total volume
19 variable cost?

20 Q Yes. If you take a look at page two, the
21 test year after rate volume variable cost. When we
22 did that, none of the revenues in the spreadsheet
23 changed. Is that surprising?

24 A Not necessarily, no.

25 Q If the costs are an input to a model,

1 wouldn't changing the cost result in changes
2 throughout the spreadsheet? Or is that not the way
3 this one was designed?

4 A That's not the way this one was designed.
5 It's not an automatic flow chart. There are judgment
6 switches along the way.

7 Q I'm sorry? There are --

8 A Judgment switches along the way.

9 Q Switches along the way.

10 Let me give you another illustration. On
11 the very top under targets, where there is a 213
12 percent, that was what came from Dr. O'Hara, correct?

13 A Yes.

14 Q And just to test the spreadsheet and see
15 what we could do, we changed it to 150 and nothing
16 changed again, so that wouldn't surprise you either?

17 A No.

18 Q We did make one change and it caused a
19 change that we didn't expect. We changed the pass-
20 through for saturation letters to 200 percent and then
21 it turns out the coverage on the last page of your
22 sheet changed from 213 to 210.5. Is there any reason
23 you can think of that would happen?

24 A I haven't tried to do that so it's not
25 something I can, I don't carry the entire spreadsheet

1 with all its formulas around in my head.

2 Q I understand. we're just trying to figure
3 out how to use your spreadsheet to test these "what
4 if's" if mailers or the Commission would disagree.

5 Have you provided any information about how
6 to use your spreadsheets to do this, to test different
7 assumptions than the assumptions you make?

8 A I haven't provided a guide and say if you
9 want to test an alternate assumption X this is how you
10 would do it. I haven't done that.

11 Q Would that be hard to do?

12 A There are many assumptions. It might be
13 hard to do.

14 Q Let me ask you to look at your response also
15 to Mr. Baker's interrogatory number four, NAA-4.

16 A I have it.

17 Q After the seven bullets you say, well, let
18 me just go over this for the record.

19 The question says please elaborate on the
20 process by which you selected the piece and pound
21 rates for ECR flats, and you say the collection
22 process involved the following steps, and you have
23 seven bullets, correct? Seven different steps that
24 you took?

25 A There are seven bullets there, yes.

1 Q Those are seven steps you took. Then you
2 say, "These steps were repeated many times over, many
3 iterations, in an attempt to balance," et cetera, "to
4 achieve your objective."

5 Is that the way your spreadsheets are
6 designed to be used? They're designed to go through a
7 selection process that requires all these iterations
8 to get to a point where you have something solid?

9 A I'm not 100 percent sure of what your
10 question is. Perhaps what I should do is I should
11 describe, maybe that might help.

12 Q Thank you.

13 A First of all, even though the question was
14 asked for ECR flats, it applies to the other ECR
15 categories generally and also actually to standard
16 regular. This is my general methodology.

17 we start from the current rate and then we
18 choose, based upon the cost information that I
19 received on the mail processing and the delivery unit
20 cost information, choose piece and pound rate elements
21 that would give, with the general idea in mind that we
22 need to come up with an increase in revenue of such
23 and such percent. We have a revenue target.

24 As we do it, if you look at the exhibit, any
25 one of them, what we have is we have the costs for the

1 base pieces at the top and we pick piece and pound
2 rate elements, and then also go through and pick
3 appropriate pass-throughs for the various work sharing
4 and we look at, when we multiply it by the various
5 aggregated volumes you can generate a revenue, and you
6 can see are you close or not. If you need more
7 revenue, then you have to go through and pick, raise
8 these rate elements to get yourself closer. So this
9 is a process of iteration.

10 At the same time you would look at the rate
11 changes which are for the ECR case it would be the WP-
12 FPDECR-17 which shows the rate changes and then we
13 would go through and see whether the rate changes that
14 we were proposing were sort of getting out of line,
15 whether we were actually putting too much of a burden
16 on one particular rate category versus another, what
17 the rate relationships, and look at the interaction
18 between the rates for let's say one shape category
19 versus another, different costs, et cetera.

20 When I would do this, this would generate a
21 revenue. If it was needed to adjust the revenue we
22 would go through and make adjustments as needed to
23 generate more revenue or others. If I found that a
24 particular rate that came out of the process so far
25 was maybe considerably too high, then we could adjust

1 the pass-through of the work sharing or perhaps if a
2 category were too high or too low we might adjust the
3 base price. It was a process that went on.

4 As I said here, as you go through this
5 process, you might be focusing in some iterations on
6 certain of these seven items more than others, but
7 these were considerations that went on.

8 Q The spreadsheets that you used when you did
9 these iterations many times over were the spreadsheets
10 that you provide as work papers in this case?

11 A That's correct. I mean I may have included
12 a few other cells just to sort of, to show me, let's
13 say, various rate relationships as I was going, to
14 avoid having to jump back and forth between this table
15 and this table. You might say okay, what is the
16 percentage increase for these cells, and you have a
17 little note there.

18 Q Let me ask you to look at your response to
19 our interrogatory. At this point I think all my
20 references are going to be to ValPak interrogatories.
21 Number 18.

22 A I have it.

23 Q I think we can focus on just the answer
24 without the question for this purpose because I think
25 the answer has enough information, but this keys off

1 of POIR-5, question 3(a) at the end of your response
2 to 18(a).

3 You say, "In my response to POIR-5, question
4 3(a), I stated my opinion that the key relationships
5 were those within each branch of the tree rather than
6 those that go across branches."

7 Do you see that?

8 A Yes, I do.

9 Q Is that by chance a commentary on the costs
10 that you were using? In other words are you saying
11 there's some reason that the costs are more comparable
12 when they're used vertically within pre-sort tier or
13 as opposed to horizontally say between letters and
14 flats and parcels?

15 A I was stating perhaps, if one wanted to look
16 at this perhaps an analogy might be to, in this case
17 we're talking about, pre-sort tree, we might look at a
18 family tree. The relationship is a lot closer in the
19 relations that go vertically, that is up and down.

20 Q Let me see if I can shorten this because my
21 question had to do with costs. It had to do with
22 whether you are saying that the costs are more
23 comparable vertically rather than horizontally. For
24 some reason there might be a peculiarity in the costs
25 that caused them to be useable vertically but not

1 horizontally. That's not what you're saying, right?
2 you're saying it has to do with the type of
3 relationship between the mail categories that go
4 vertically versus horizontally.

5 A It was not a commentary that, well, it was
6 not a commentary that the costs let's say between the
7 various categories were less reliable and that the
8 costs that went down, cost differences that went down
9 the branch were more reliable.

10 Q That's what I'm trying to get at. Thank you.

11 Let me ask you to turn to your response
12 while we're at 18 to Section F.

13 Section F is a whole page there but I want
14 to focus you from the third, what you say in the third
15 sentence. Do you see the sentence that begins, "The
16 rates I am advocating"?

17 A Yes, I do.

18 Q Let me just read that.

19 "The rates I am advocating for non-
20 automation machinable letters and non-automation
21 flats, to take the two specific categories that are
22 the subject of this interrogatory, are fair and
23 reasonable regardless of whether one can demonstrate
24 that the unit contribution of these letters are higher
25 than the flats or not."

1 Correct? That's what it says?

2 A That's fine.

3 Q That's your position?

4 A Yes, it is.

5 Q Does that statement mean that unit
6 contributions of different products are irrelevant as
7 to whether rates are considered fair and reasonable?

8 A No.

9 Q You say "The rates we're advocating are fair
10 and reasonable regardless of whether one can
11 demonstrate that the unit contribution of these
12 letters are higher than the flats or not."

13 So you seem to be saying that the unit
14 contributions are not relevant to fair and equitable
15 test, fair and reasonable test.

16 Can you reconcile the two --

17 A I don't think, I wouldn't characterize the
18 statement as as far-reaching, as what you said.

19 What it says is the mere fact that we have
20 different unit, if you can demonstrate that the two
21 products have different unit contributions, that fact
22 in and of itself does not invalidate the
23 reasonableness of the pricing we're proposing.

24 The converse of this would be that any
25 deviation whatsoever from equal absolute unit

1 contributions would be unreasonable, and I wanted to
2 point out here that I had concerns first with taking
3 various cost information and putting it together and
4 coming up with a highly desegregated unit contribution
5 estimate. But even leaving those reservations aside,
6 the fact that if you could show me that this was like
7 a tenth or two-tenths, a little bit higher here or
8 there would not itself invalidate the reasonableness
9 of my proposal.

10 Q I take your point then, you're talking about
11 a small difference in unit contributions would not
12 make it unreasonable or unfair.

13 A What I'm saying is that a difference in and
14 of itself sort of taken in a vacuum is not a
15 sufficient factor.

16 If there is a huge difference and there are
17 no other considerations, then as I think I've said
18 down at the bottom of this very response, if you'll
19 follow with me, the sentence that begins, "The Postal
20 Service is not oblivious to the cost differentials
21 defined in Part D of this question. And while I'm not
22 willing to concede that these numbers can be used to
23 accurately infer total unit contributions at the most
24 detailed rate category level, I believe that my
25 pricing proposals fairly respond to the cost

1 differences and the balancing of various interests."

2 So what I'm trying to say is that the Postal
3 Service does try to examine cost differences and try
4 to recognize, come up with an appropriate recognition
5 of cost differences, but the fact that when all is
6 said and done that if one can, even if we had
7 excellent data and were able to get down to the very
8 most detailed level and say this piece is contributing
9 more on a unit basis than that, that in itself is not
10 an invalidation of the --

11 Q I think the word you used at the outset was
12 that as long as the differences in unit contribution
13 were not huge.

14 A Uh huh.

15 Q You used that word before?

16 A Yes, I did.

17 Q Let me just suggest that suppose the unit
18 contribution for a particular, say ECR saturation
19 letter was five cents and the unit contribution of an
20 ECR saturation flat was one cent. Would you consider
21 that a huge disparity?

22 A I'd have to take it within the context.
23 What were the other factors?

24 When we do pricing we don't do it in a
25 vacuum. It may not be huge. It depends on a variety

1 of factors.

2 Q Some of the factors you just identified were
3 whether you can really trust the costs down at that
4 level of disaggregation. Let's assume you can.

5 A Assume that I can or cannot?

6 Q Assume you can trust the costs down to that
7 level of disaggregation. So we're taking that out of
8 the equation. Let's assume there are no other
9 countervailing considerations that I think you said
10 sometimes there are other overriding concerns. Let's
11 take that out of the equation.

12 If ECR saturation letters had, for the
13 purpose of my hypothetical, a five cent unit
14 contribution and flats had a one cent unit
15 contribution, is your position still that that's not a
16 huge difference?

17 A Let me try to present this in the way we
18 would actually reflect that. Let us assume that, for
19 example, that we had a particular set of rates that
20 had been approved by the Commission and they resulted
21 in let's say a 1.5 cent contribution for saturation
22 letters and a one cent for flats, so there's a small
23 differential.

24 We come back in another rate case and it is
25 as you said, five cents, one cent. Nothing else has

1 changed.

2 Well, I think in those circumstances that
3 would be valuable information to us and we would, if
4 we believed that the world had changed in such a way,
5 this is information that would inform our pricing.
6 That was what I was referring to here. That we would
7 try to move that.

8 I'm not saying I would say there are
9 considerations. You always have to take into
10 consideration things like what's going to happen if I
11 then start making changes to the rate relationship.
12 So if the difference in unit contribution has jumped
13 from half a cent to four cents, it's not clear that we
14 would trace this kind of a thing all in one fell
15 swoop. It depends on a number of factors, whether we
16 felt that over the long run these would persist or
17 not.

18 Q Would it be fair to say that it's
19 inadvisable for a pricing witness to speak about
20 eternal principles that can be applied by mailers and
21 briefs? I'm having a hard time getting to the core of
22 the answer.

23 I suspect that retaining flexibility is
24 important to a pricing witness. What I'm trying to do
25 is identify principles that constrain your

1 flexibility. I want to get back and just ask you this
2 one last time, and if you have the same answer, that's
3 fine, but even if you didn't expect, your hypothetical
4 was you thought letters would be 1.5 cents and flats
5 would be one cent and the change when you finally went
6 back and looked back at historic data, irrespective of
7 that is there anything you can give us to help us
8 quantify what huge is that would be a principle that's
9 eternal? Can be applied by all of us in the room in
10 our briefs?

11 A No.

12 Q Okay. We'll work with that.

13 Let me ask you to turn to F on this question
14 18. And I do appreciate your willingness to, even
15 though you didn't accept all of the assumptions you
16 were willing to entertain some of the considerations
17 you put into your disclaimers, but at least you gave
18 us responses, and I thank you for that.

19 Let's take a look at F, and I'm trying to
20 find this quotation I have in my notes. Just one
21 second, please.

22 (Pause).

23 It's at the very end and it's what you
24 referred us to before. You said, "I believe that my
25 pricing proposals fairly respond to the cost

1 differences, thereby balancing interests of sending
2 appropriate economic price signals with the goals of
3 reasonable price changes."

4 Correct?

5 A Okay.

6 Q I want to get at that statement.

7 Could you tell us how you can tell if a set
8 of rates gives appropriate economic price signals?

9 A In this particular case, as I say, if the
10 cost differences, say mail processing and delivery
11 cost differences which are the ones that we're using
12 here, between certain categories of mail are large and
13 considerably larger than the rate differences, we may
14 try to move in the direction of narrowing the gap
15 between the pricing and the cost differential.

16 Obviously whenever we try to do something
17 like that we want to, we feel obligated to take into
18 consideration other non-cost factors so that we,
19 whereas what we think are appropriate economic price
20 signals, the pricing, how we respond and try to set
21 appropriate price signals is always modified and
22 tempered sometimes as needed by considerations like
23 what kind of rate increases are we asking the various
24 mail categories to pay.

25 Q Impact on mailers, that sort of thing?

1 A Impact on mailers, changing rate
2 relationships.

3 Q Let me go back to the basic part of the
4 sentence. It talks about balancing interests of
5 sending appropriate economic price signals on the one
6 hand with the goals of reasonable price changes, and I
7 think most of your answer has been the concept of
8 reasonable increases and rates and such.

9 Let's go back to appropriate economic price
10 signals. Is there a test that you have for that? Is
11 it a cost based test, for example? Is that what
12 you're talking about?

13 A Certainly if we are dealing with let's say
14 the simplest example is as far as looking at
15 appropriate price signals might be if we're looking at
16 a work sharing difference where, for example, if we're
17 talking about sorting from one level to another, we
18 want to send an appropriate price signal and try to
19 encourage mailers to engage in let's say cost
20 effective pre-sorting.

21 If a particular category of mail is
22 particularly inexpensive for us to process and we have
23 another category of mail that is particularly
24 expensive for us to process and the rate difference
25 between the two does not really reflect some of the

1 cost differences, then we may want to align our
2 pricing more appropriately with the cost information
3 so that we can encourage mailers to give us mail that
4 we can process efficiently and recoup more revenue
5 from mail that is more costly for us to process.

6 Q That's in the context of work sharing.

7 A The second part of my response was actually
8 broader than that so you could look at it, for
9 example, within the context of trying to in fact
10 collect more revenue from our parcels. That led to a
11 lot of back and forth between myself and Mr. May just
12 an hour or so ago.

13 Q Let's take the, I believe earlier today, I
14 don't recall who you were being cross-examined by, but
15 at one point you said you don't like to speak in terms
16 of pass-throughs of, I believe it had to do with
17 letter flat differential because you don't believe
18 that to be work sharing and therefore the term pass-
19 through doesn't seem appropriate.

20 Did you say something like that earlier?

21 A I said I didn't like to use the term pass-
22 through. I reserve the term pass-through generally
23 for work sharing cost differential.

24 Q I think that's a reasonable point to make.
25 I'm not challenging that.

1 But let's assume we had a non-work sharing
2 cost differential like the difference between the cost
3 of handling letters and the cost of handling flats.

4 My recollection is that the first time we
5 had separate rates in standard mail was even before
6 ECR and regular divided and MC-95-1. It goes back to
7 R-90-1. Is that your recollection?

8 A I believe that's, I wasn't with the Postal
9 Service then but I believe I've read that that is when
10 it happened.

11 Q In the history books.

12 A I was in grade school then.

13 (Laughter).

14 Q I'm sorry to say I was here.

15 (Laughter).

16 Q If you go back to that case, R-90-1, and you
17 look at the institution of the letter flat
18 differential, I believe you'll find a discussion as to
19 why the full extent of the letter flat cost
20 differential should not be recognized and that I
21 think, actually I think the word pass-through was
22 used, but it was at 50 percent.

23 Can you just assume that to be true subject
24 to check?

25 A I have looked back at some of the

1 information from the R-90 docket, but it's not
2 something that I bear in mind exactly. But why don't
3 you continue with your question.

4 Q So you don't know whether that's true or not
5 but you're willing to accept it for the moment?

6 A I'll accept it for the purposes of the
7 question.

8 Q Thank you.

9 My question is, if the letter flat pass-
10 throughs were set at 50 percent back then, has it
11 progressed in some sense to the present? Do you
12 recall, for example, your letter flat pass-through at
13 the basic level for standard regular?

14 A In my rate design I avoided calculating
15 percentage, I'll call them cost relationship ratios.
16 You wanted to call them pass-throughs, but I avoided
17 calculating those specifically because I think I've
18 expressed, as I said when you first began my cross-
19 examination, my view was that the most important
20 relationships were those that went down the branch of
21 the tree, and that the relationships get more distant
22 as you start to go between different branches of the
23 tree. The question is what does the cost of, what we
24 have in the case of the letter flat differential, we
25 have an average value for letters and an average value

1 for flats. It's not clear what we're measuring if
2 we're taking the difference and converting it into a
3 ratio in terms of differences in pricing.

4 Q So you consider that ratio wholly without
5 significance, I take it?

6 A I consider it important for us to look at
7 the relationship between the costs of letters and
8 flats and the pricing of letters and flats. And as I
9 said in this interrogatory response, we do look at
10 costs and I think I've made the point in this or in
11 other interrogatories in response to questions from
12 ValPak that we have, that my pricing does in fact
13 attempt to increase the percentage changes for flats
14 compared to letters, so thereby any contribution gap
15 that might be between the two would be narrowed
16 comparatively.

17 So I think we are responding to that.
18 Whether we're calculating specific ratios or not, to
19 my mind that's not the issue. We'd only look at some
20 of the particular percentage changes that I have, for
21 example, in the ECR that you can see in the exhibit
22 from NAA. You can see that in general we're asking
23 flats to have a higher percentage increase than
24 letters.

25 In the case of, as one of the previous

1 counsel have done, they've pointed out that the
2 numbers there for saturation flats are for flats that
3 are being addressed on piece so that the comparison is
4 with flats that may have in fact used detached address
5 labels for so they look at little bit lower.

6 But as I said also, we've taken into
7 consideration the fact that we are asking them to
8 change the way they're addressing in order to get this
9 raised.

1 Q Do you recall off-hand, I know you say you
2 assiduously avoided calculating these, but do you know
3 what your standard ECR letter flat pass-through is at
4 the basic level?

5 (Pause).

6 Q I can give you a hint as to where you
7 address it, I believe.

8 Page 31, lines 19 and 20.

9 A Okay. Are you referring to what the basic,
10 setting the basic letter rate?

11 Q Yes.

12 A Your testimony says, "I also continued the
13 practice of setting the basic letter rates equal to
14 the corresponding flat rates, correct?

15 A Yes.

16 Q That would be the equivalent in the

1 vernacular of a zero percent pass-through, the letter
2 flat differential at the basic level, correct?

3 A Yes. That one's an easy calculation.

4 Q Okay. Let's go to 18(e). This is a very
5 short response from you and I want to pursue this with
6 you.

7 We asked you, I'll must read the question if
8 you don't mind in 18(e), if you have that.

9 A Go ahead.

10 Q "Do you agree that rates set in this way
11 imply a substantially higher per piece contribution
12 from letters than from flats calculated in the same
13 way as the contributions in the testimony of Postal
14 Service Witness Michelle K. Yorgi, USPS-T-2, as
15 developed on pages 2 through 6 of Appendix A in Docket
16 Number MC-2005-3? If you do not agree please present
17 your own quantitative analysis of the relative
18 contributions of machinable letters and flats as they
19 would exist under the rates you propose."

20 Your response is very short. It says, "I
21 have reviewed the pages of Witness Yorgi's testimony
22 cited in the question and do not see any calculations
23 of per piece contributions."

24 That's your response, correct?

25 A That was my response.

1 Q I have just one for your counsel and one for
2 you and I just want you to look at what we asked you
3 to look at and ask you to answer a question or two.

4 I've just handed you a copy of pages from
5 the Books Ban case from MC-2005-3. That's what we
6 asked you to look at in our interrogatory. This is
7 Witness Yorgi's testimony, USPS-T-2. We asked you to
8 look at Appendix A.

9 Are these the pages you looked at when we
10 asked you this question, do you know?

11 A I did look at this. My recollection, I don't
12 have a photographic memory and this was somebody
13 else's work papers, so, I mean they look similar.

14 Q When Postal Service witnesses provide these
15 kinds of attachments to their testimony sometimes on
16 the Postal Rate Commission web site they appear as
17 pdfs and then also as Excel spreadsheets. Have you
18 ever noticed that?

19 A From time to time yes, they do.

20 Q The Excel spreadsheet which goes behind this
21 would tend to perhaps have some more information about
22 formulas and such. But let me ask you even without
23 that if you can just look at this with me.

24 Do you recall if you looked at her
25 spreadsheet? Let me ask you that.

1 A I do not recall what form. I looked at the,
2 I got it from the Commission's web site.

3 Q Okay. If you can turn to page three, I know
4 the columns aren't on here but I put an H over on the
5 right side, do you see that?

6 A Yes.

7 Q It says that's in the category of USPS
8 totals, revenue per piece, and for each of the
9 standard regular pre-sort categories there's a
10 different revenue per piece. Do you see that?

11 A Yes.

12 Q And if you turn to the next page, it sort of
13 slips for some reason there on the left, the USPS
14 cost, and in column D, do you see where I wrote column
15 D there?

16 A Yes.

17 Q It's above total unit costs in dollars.
18 Do you see where unit costs appear for each
19 of the letter pre-sort categories?

20 A Yes, I do.

21 Q Did it occur to you that if you subtracted
22 the costs from the revenues you'd get unit
23 contribution?

24 A Well, I think I've already expressed a
25 concern about creating unit contributions at this

1 disaggregated level. So I was not --

2 Q I'll stipulate to that, but I'm trying to
3 get
4 to --

5 A I didn't perform any additional analysis
6 beyond what Witness Yorgi did.

7 Q Actually your response to our interrogatory
8 18 said you didn't see any unit contributions in
9 Witness Yorgi's, and I'm just trying to walk you
10 through this. I didn't get an answer to the question
11 when we asked it in the interrogatory except for the
12 fact that you said you didn't see any unit
13 contributions.

14 A Uh huh.

15 Q I'm trying to begin to show you how the
16 numbers from which you could easily derive them are
17 here. But if you also go to page eight, I didn't
18 designate page eight expressly in the interrogatory,
19 but you see there for standard mail letters in fiscal
20 '08 for example, the contribution per piece is, for
21 letters, is 9.6 cents, correct?

22 A I see that figure. Yes. I see that figure
23 there.

24 Q And for standard mail non-letters in the
25 Yorgi testimony, do you see what the contribution per

1 piece is there?

2 A It shows a zero number.

3 Q Had you noticed those before?

4 A No.

5 Q Would it surprise you to learn that Witness
6 Yorgi subtracted those two, the 9.6 cent unit
7 contribution from standard mail letters and the zero
8 contribution from standard mail non-letters and used
9 that for purposes of the next chart to calculate the
10 contribution that additionally would come to the
11 Postal Service from the NSA?

12 A I don't know whether she did that or not.
13 but it wouldn't surprise me had she done that.

14 Q If you look at page nine, do you see line
15 two? It says contribution from standard non-letter
16 mail converted to standard letter mail. Do you see
17 that?

18 A I see the figure, yes.

19 Q I can represent to you as having worked on
20 this case and cross-examined her, that the Postal
21 Service asked the Commission to rely on these data
22 when it approved the Books Ban NSA and I'll just ask
23 you to assume that.

24 Let me ask you, does it bother you as a
25 pricing witness that Witness Yorgi is showing to the

1 Commission a unit contribution of, for these letters,
2 of 9.6 cents, and for non-letters zero?

3 A I don't know the origin of the information.
4 I would --

5 Q Let's assume it comes from a reliable
6 source. Witness Yorgi testified to it before the
7 Commission.

8 A Okay. So your point?

9 Q As a pricing expert of the Postal Service,
10 does this type of disparity in unit contribution
11 between non-letters and letters that the Postal
12 Service testified to, just last year, does that bother
13 you?

14 A This would be one of those situations. If
15 we assume that we are presented with the fact that
16 there was a 9.6 cent differential in standard letters
17 as compared with standard non-letters, I note though
18 that non-letters does include things like parcels.
19 Although it is predominantly flat.

20 I think we've had plenty of discussion
21 earlier suggesting that we may have negative
22 contribution on parcels and it would probably help to
23 pull that down, but I don't know the extent to which
24 this particular mix, or what was the percentage of
25 parcels in it.

1 But if I saw a gap of this and sort of let's
2 go back to the setarus paribus situation, this would
3 be piece of information that I would take into
4 consideration and try to move toward getting more
5 contribution per piece from non-letters as a pricer.

6 The fact that this thing says there's zero
7 contribution from non-letters, if somebody presented
8 me with reliable information I would say well, this is
9 something we need to address. Not necessarily that we
10 would eliminate the differential in one fell swoop.
11 but this is something we'd tend to address.

12 I don't want to repeat myself ad nauseam.
13 but I take you back to my response to 18(f) where I
14 said we are aware of differentials in costs and I
15 think that in general we want to try to move in that
16 direction. But I also pointed out we have actually
17 asked, to take an example I think you were talking
18 about earlier, that we have asked the flats to have
19 significantly above average rate increases in this
20 particular rate proposal. I think that in part is our
21 response to the fact that we have observed that there
22 are differences in costs.

23 Q Would the difference in contribution between
24 zero and 9.6 cents be huge?

25 A It would be big enough to cause us to

1 consider it as part of our pricing decisions. It
2 wouldn't be something that would be negligible or
3 ignored. We'd want to take it into consideration.
4 It's not something that would fly below the radar
5 screen.

6 Q Just to confirm, I think you've already said
7 you were not aware of this testimony when you prepared
8 your testimony?

9 A I was not aware. I don't think I actually
10 said that, but I was not familiar.

11 Q Were you aware of it when you prepared your
12 testimony?

13 A These specific calculations? No. Those
14 particular calculations, I'm not sure exactly what
15 these represent, whether these represent an across the
16 board standard mail average or whether they represent
17 a particular subset that's weighted by a particular
18 customer's usage or whatever, I'm not sure.

19 Q As a matter of fact, some of this is coming
20 back to me now and I'm trying to think as I hear you
21 discuss the various possibilities, I'm trying to
22 remember exactly how Witness Yorgi explained this. I
23 believe some of this was based on an average of all of
24 the types of mail used by Books Ban, and I don't think
25 it was weighted.

1 In other words, it may be, I'm trying to
2 reach a principle with you as opposed to establishing
3 something from another docket as fact. I think we've
4 established a principle.

5 A Let me sort of represent a principle, and
6 that is that if we see differences in costs that are
7 not reflected in rates and there are not other factors
8 that we feel are important factors that might explain
9 them or lead to them and justify them, then you would
10 take them into consideration and try to adjust the
11 pricing over time to try to move in the direction of
12 narrowing a contribution gap that might seem to be
13 unwarranted by other factors.

14 Q Thank you.

15 Let me touch on delivery costs with you for
16 a minute, and I have to do that, I have to go back to
17 your input sheet on the NAA cross-examination Exhibit
18 3. There I know this printout doesn't have the cell
19 designations but it was on page two of this printout,
20 I believe where it says test year delivery cost per
21 piece. Do you see that?

22 A Yes.

23 Q I believe you have a reference that doesn't
24 show on this particular printout, or at least the one
25 that I have, and I didn't get one from Mr. Baker but I

1 had it, it shows that you got those from Witness
2 Kelley. They were in library reference 67, is that
3 correct?

4 A Yes. My version of this shows number nine,
5 Kelley, LRL-67.

6 Q Okay. I think it may appear elsewhere but
7 it's at least in that footnote.

8 Is it your understanding that the delivery
9 costs that you show there are the sum of in-office
10 costs and street costs?

11 A I think so.

12 Q You're not sure?

13 A I'm not sure where the line is drawn.

14 Q There are in-office costs and carrier costs
15 and there are street costs for carriers and you've
16 many times discussed where the line is drawn in a
17 particular mailing, like with DALs and taking it out
18 to the truck and that sort of thing. I'm not trying
19 to get to where the line is drawn, I'm just trying to
20 identify whether you understood these costs coming
21 from Witness Kelley to be in-office costs, street
22 costs, or a combination of the two. If you know.

23 A I didn't try to break them down. I combined
24 them with the mail processing costs, to have a
25 combination of the mail processing and delivery costs.

1 I didn't try to split out below that level.

2 Q That's not really what I was asking. Let me
3 try it again. I'm just trying to get your
4 understanding of what you believe the costs you got
5 from Witness Kelley is. The three options are A,
6 they're in-office costs; B, carrier street costs; or
7 C, a combination of both.

8 A To the extent that that was something that
9 entered my mind, I thought it was both.

10 Q Okay.

11 Let's just look at one cell for saturation
12 flats on here where you have a 5.226 cent cost,
13 correct?

14 A Saturation flats, 5.226 cents.

15 Q I don't know if you noticed, we had some
16 interrogatories with Witness Kelley and he identified
17 a carrier wage of \$35.41 an hour and we have been
18 playing with the fact that every hour has 3,600
19 seconds and that's about a penny per second. You've
20 heard the concept?

21 A Yes.

22 Q If you have an item here that has 5.226
23 cents, let's just for a second think of that as 5.226
24 seconds, okay?

25 A Okay.

1 Q That's for a saturation flat.

2 Do you think it matters as to whether that
3 time is street time or in-office time? Do you think
4 it would matter for your purposes of rate design?

5 I'm specifically going to ask you about the
6 fact that some of these things are saturation flat
7 bundles taken directly the streets and --

8 A Right, I --

9 Q -- circumvent some in-office costs. You see
10 where I'm headed.

11 Would it have mattered what they were?

12 A How they were divided I don't think it would
13 have mattered, no.

14 Q Okay. Let's look at your response to 1(c)
15 of ours.

16 In your answer in Section C you say, "This
17 formula is a way to implement part of my rate design
18 methodology. In that sense it could be considered a
19 key step."

20 I know I haven't read the question in, but
21 can you look at the question and get in mind what that
22 answer refers to? Do you see that?

23 A I think we're talking about the one under
24 the third bullet of let's say the preamble to the
25 question?

1 Q Yes.

2 A Okay. I see it.

3 Q My first question is, if you wanted to take
4 advantage of this opportunity to describe your, in a
5 way that you may perhaps not have done in response to
6 POIR-5 or may be doing in response to the Notice of
7 Inquiry, do you care to describe your rate design
8 methodology? Is there anything more you can add than
9 what you've already said?

10 A I think that the summary that I referred to
11 or responded in what the NAA question 4 kind of
12 outlined, the methodology that was used.

13 Q At the moment you'll stick with that
14 description?

15 A The methodology is also shown in my
16 worksheets. There's the specifics, what was
17 multiplied by what, et cetera, et cetera. That is in
18 the worksheets. The overall approach to coming up
19 with the pricing, that part of the methodology was
20 described in my response to NAA question 4.

21 Q Let's just focus on for a moment the words
22 "the formula". Can you help me better understand what
23 you're trying to achieve with this formula?

24 A I would note that this formula is abstracted
25 from and printed out and it doesn't really describe

1 quantities. I'm relying on my memory as to what is in
2 cell B8, D9, R20, D6, F33, but in general I believe
3 this is the per piece element plus the per pound rate
4 element times the ratio of the break point weight
5 divided by 16 ounces. And then off of that is
6 subtracted, what I'm thinking is a work sharing, any
7 applicable work sharing discounts.

8 Q You call it a key step in your response. Is
9 that a central, is there a central part of your rate
10 design methodology that's reflected in that formula?

11 A I'm not sure I understand the question.
12 Perhaps you might want to rephrase that?

13 Q Let me come at it on the other side.

14 When you set out to write your testimony in
15 this case you've made some significant proposals for
16 change in standard mail rate design. Would that be a
17 fair statement?

18 A Yes. I mean I proposed a number of different
19 changes. For example, one would be the introduction
20 of the NFM or hybrid category. Something with
21 separate rates for that, something we didn't have
22 before. Also additional work sharing.

23 Q I'm thinking less about specific proposals
24 for new mail classifications or that sort of thing,
25 but rather the way in which you approach costs to

1 separate is somewhat different than has been done by
2 the Postal Service in the past, is it not?

3 A It may be different in a certain framalistic
4 way, but in general I don't know that it's that much
5 different.

6 We would in the past, we may have used
7 different levers to pick the piece and the pound rates
8 and things like that there was a substantial
9 difference. In the end we picked piece and pound
10 rates that would generate suitable and reasonable
11 rates. I know the mechanism that was used in the
12 spreadsheet to generate this may have been by picking
13 throwing in pass-through numbers, but this was not a
14 substantial departure in that regard.

15 Q Was this something that's been around, I'm
16 not going to pursue this. Whatever answer you give me
17 I'll accept. But has this been around for a long time
18 within the Postal Service that there was going to be
19 this change? Or was this your vision for improving
20 standard mail rate design?

21 A This was the subject of some discussion. I
22 think I've testified in response to the POIR that what
23 we have proposed in this particular rate case was a
24 substantial increase in the number of categories. The
25 former methodology had certain limitations that in

1 fact we felt that it might be better to approach this
2 in a different way.

3 First of all, it would not have been
4 possible to just sort of plug in the new rate
5 proposals or the new categories into the old
6 spreadsheets. This was not just an occasion of
7 turning the crank. We would have had to either take
8 the old methodology and completely --

9 Q Can I suggest that you're saying that
10 additional complexity necessitated some change?

11 A It absolutely necessitated some change. How
12 we did it was we took an opportunity and made various
13 changes, but --

14 Q Let me ask you one specific because you have
15 a free-floating phrase here I just want to ask you to
16 describe. Your response to our interrogatory 1(f) at
17 the very end, you talk about, your sentence says,
18 "Other factors also contributed to the choice of these
19 elements." I don't know what other factors there
20 could have been.

21 Is there anything you want to tell us about
22 what you meant by that?

23 A Let me read this response.

24 Q Sure.

25 A And I should actually read the question.

1 (Pause) .

2 A Yes. The whole range of factors as I
3 outlined, for example, in NAA-4, were factors that fed
4 into this. It's not just cost, but the need to
5 achieve a certain amount of revenue to hit the revenue
6 targets, weight relationships, also changes in rates
7 of, this particular Part F here I think was referring
8 to machinable letters. So what we have to take into
9 consideration is how the rates of machinable letters
10 were being asked to increase relative to other
11 particular categories.

12 Q Thank you.

13 Let me ask you to turn to five. I have two
14 more lines of questions and then I'll be done.

15 The first is on our interrogatory 5(g) .

16 A These are long questions so it sometimes
17 takes me a while to get there.

18 Q Sometimes even longer answers.

19 (Pause)

20 A I have it. Thank you.

21 Q In your response to G, you have points,
22 first, second, third, fourth, fifth. Do you see
23 those?

24 A Yes.

25 Q For reference here, let's look at the point

1 at the end of the second point.

2 You say, "I see no reason why the sole fact
3 that one group's or product's unit volume variable
4 cost is higher than another's should mean that the
5 first product should be required for that reason alone
6 to make a higher unit contribution to the Postal
7 Service's institutional costs."

8 Correct?

9 A Yes, I see that.

10 Q That is your position, correct?

11 A Yes, it is.

12 Q Are you familiar with George Stigler's book,
13 The Theory of Price, that the Commission cites in NOI
14 2 and 3?

15 A I've seen the citation. I do not have a
16 copy of the exact edition that the Commission cited.

17 Q Well, that raises an interesting question.
18 I don't know if I do either, but on the page that I
19 have it has the same quotation so I'm optimistic.

20 Can I show this to you and ask you to answer
21 a question about economics for me?

22 (Pause).

23 Q I just want to draw your attention to the
24 two formula in the footnote at the bottom of 209. Do
25 you recall this from the NOI?

1 A I recall the second formula from the NOI.
2 Not the first.

3 Q For the record, the one that we copied here
4 is one page out of the third edition dated 1966.

5 Let's look for a second at the first formula
6 where we talk about rates being discriminatory if the
7 ratio of price to marginal costs is variant. Is that
8 a reasonable description of that formula?

9 A Given that there are two equations there, I
10 think that would be an inadequate description. How
11 they would be in variant would be a key element.

12 Q Maybe you can help me here. The first
13 definition has to do with ratios between price and
14 marginal cost, and the second has to do with absolute
15 differences between price and marginal costs. So in a
16 sense the first one is like a percentage markup and
17 the second test of discrimination is more like having
18 the same unit contribution. Would that be true?

19 A Yes. The second one says there is price
20 discrimination of there's a difference in the absolute
21 unit markup. The second one says there's a difference
22 in the percentage unit markup.

23 Q Okay, good.

24 Looking at the primary one or the first one
25 here that they said is our definition of

1 discrimination, if it turns upon that inequality of
2 the percentage of markup, if I understand, just using
3 that first definition, that if one product has costs
4 that are higher than another product and you apply the
5 same markup, you're going to have higher unit
6 contribution from the one that had higher costs, or
7 else he would say you're engaged in some form of
8 discrimination. That's not to say that all
9 discrimination is bad or anything else, you have to
10 get into the whole chapter on that, but it is a form
11 of price discrimination, is it not? That formula?

12 A Do you want to look at the top of the page?

13 Q Sure.

14 A The first sentence there. It talks about
15 the description of the sale of the same commodity at
16 two or more prices.

17 I think that Professor Stigler and others
18 might argue that that might be an overly narrow
19 definition, but that perhaps a similar product might
20 be the appropriate --

21 Q That's the next paragraph. That's what it
22 says. Two or more similar goods.

23 A But I am not aware that Professor Stigler or
24 anywhere else in the economics profession have come to
25 let's say an absolute consensus on how similar

1 products might be before these would apply.

2 Q It would be no fun if we had consensus, but
3 I'm just trying to get you to apply the first formula
4 and I'm just suggesting that your sentence where you
5 say, "I see no reason why the sole fact that one
6 group's unit volume variable cost is higher than
7 another should mean that the first product should be
8 required for that reason alone to make a higher unit
9 contribution."

10 All I'm asking you to do is to tell me
11 whether you agree that based on the first formula
12 that's set out here, which you can argue may or may
13 not apply, but based on that first formula between
14 letters and flats, that higher costs would necessarily
15 result in higher contributions or it would be
16 considered discrimination at some level.

17 A I don't think I can agree with that.

18 Q Take the letters and flats out of it and
19 just say Product A and B that are similar.

20 A If Product A and B met the appropriate
21 similarity test, then if it, going by the first
22 formula in Professor Stigler's book, one would be able
23 to conclude that there was some price discrimination
24 if the higher cost product did not have a higher
25 contribution. Under those restricted conditions I'll

1 agree with that statement.

2 Q Let me go to the next point on this. We're
3 almost done here.

4 It says in the third point, now this is
5 going back out of the book, and back --

6 A Are we talking about Professor Stigler's
7 book
8 or --

9 Q No, no. We're going to Kiefer on rate
10 design here.

11 A Okay.

12 Q If you can look at five --

13 A Where it says third?

14 Q Exactly. You say, "The Postal Service has
15 long asserted the obvious point that customers pay
16 rates not cost coverages. In developing these rates
17 the Postal Service took into account not only cost
18 information but also the existing rates for saturation
19 letters and flats, degree of mail preparation, market
20 conditions, as well as historic rate relationships."

21 I just want to ask you a quick question
22 about degree of preparation which you cite there.

23 If you have saturation letters as one
24 product and saturation flats as another product, could
25 you tell me what applicability the degree of

1 preparation would have between those? Do you see
2 either one of them being prepared better than the
3 other?"

4 A I'm not thinking necessarily of, before I
5 answer that let me re-read that just to make sure.

6 Q Sure.

7 (Pause).

8 A In this particular point I don't think I was
9 trying to try to by mentioning degree of preparation I
10 wasn't necessarily trying to develop the point of
11 comparison or contrast between let's say for example
12 saturation letters of saturation flats, but these are
13 items which go into the development of the rate. As I
14 said, what we are concerned about is --

15 Q Can I just shortcut that and say would it be
16 fair to say that you don't mean for that factor then
17 to particularly apply to the difference between a
18 saturation letter and a saturation flat? Is that a
19 fair statement? A more general point that you're
20 making.

21 A I don't know that I want to say that it has
22 no consequence and no weight, but it was not a driving
23 factor. Any differences that might be between the
24 preparation --

25 Q Can you identify some meaningful way in

1 which the preparation differs for saturation letters
2 and flats that would affect pricing?

3 A I think that the degree of preparation would
4 probably be reflected in cost information that we
5 might have. For example, the way saturation letters
6 are prepared, ECR saturation letters are prepared
7 would be, for example, in trays and things like that
8 so a lot of that probably is already filtered into the
9 cost information.

10 These are general considerations that are,
11 general things that we think about when we deal with
12 developing rates.

13 Q The same thing about historical rate
14 relationships I think you say? Market conditions?

15 A Let me make it clear. I think that's a
16 valid consideration. One thing that we have to take
17 away is that the rates, the starting rates which are
18 ergo historical have been found to be reasonable rates
19 by the Commission in their recommendation.

20 Q Can I just ask you, when you say historical,
21 do you mean current rates or --

22 A Historical is, the only rates that the
23 Postal Service can charge are rates other than if
24 they've been modified by the governors, but they're
25 rates that have gone through the process of

1 recommendation by the Commission.

2 Q So you really mean current rates, don't you?

3 A Well, I mean current and past rates. All
4 the historical rates --

5 Q Let me give you an illustration as to why
6 I'm asking this question.

7 Take the letter flat distinction. Before R-
8 90-1 it didn't exist. There was no pricing
9 differential. Is that a factor you consider when you
10 try to set rates for letters and flats, to say well
11 historically, before 1990, there was no distinction
12 between letters and flats so I would prefer to have a
13 zero pass-through. That doesn't go through your mind,
14 does it?

15 A Not that particular consideration. But if
16 the current set of rates are presumed to be fair and
17 reasonable, then we can look at, over time, for
18 example the fact that let's say if a particular cost
19 differential is not fully reflected in rate
20 differentials over a series of commission decisions,
21 that is some information that is taken into account
22 that there are factors other than just cost factors.
23 There are non-cost factors that may exist that should
24 be taken into consideration. And perhaps we shouldn't
25 be immediately discarding any other considerations and

1 going immediately to something that led to an equal,
2 to a unit markup. Either a unit percentage markup or
3 an absolute unit markup.

4 I'm going to try to get done in two minutes,
5 so if you can work with me.

6 A Sure.

7 Q Look at your response to interrogatory nine.
8 In the introduction to the question, the quoted part
9 of your testimony there deals with your proposal to
10 eliminate the automation basic letter category in ECR,
11 correct?

12 A Yes.

13 Q And you're proposing that all those piece
14 are going to move into regular and are going to be
15 five digit automation --

16 A I've made an assumption. I think that that
17 is a lower rate so I'm assuming that mailers will take
18 that lower rate and work with it.

19 Q This is your proposal that you're making.
20 You're the witness that's sponsoring this proposal?

21 A I'm proposing to eliminate the letter flat
22 distinction. Sorry.

23 Q You may be doing that too, but --
24 (Laughter).

25 A I am proposing to eliminate the automation

1 basic rate category in ECR for letters. That's the
2 only one that actually has automation --

3 Q Right.

4 A For purposes, again I come back to this, for
5 purposes of estimating what the revenue impact would
6 be --

7 Q I'm not going to go in that direction.

8 A All right.

9 Q I'm still trying to get my one minute in
10 here.

11 In Part G we asked you if you thought this
12 was a classification change and you had a response
13 that said I am not an attorney so I can only answer
14 the question from the perspective of a pricing
15 economist. I won't even comment on the fact you had
16 a lower A for attorney and capital E for economist.

17 (Laughter).

18 Q But do you not agree that your proposal to
19 eliminate the automation basic letter category in ECR
20 has the characteristics of a classification change? A
21 change in the DMCS?

22 A I think my answer speaks for itself.

23 Q Both rate design and classification?

24 A That's what I said.

25 Q And as a Postal pricing witness, do you

1 believe that this has to be tested by 39 USC 3623? Or
2 is that a --

3 A I'd have to ask my attorney what her view is
4 on that.

5 Q When the Commission created the
6 classification in MC95-1, the Commission discussed in
7 its opinion when you might have been in high school,
8 but it discussed demand elasticity, market
9 characteristics, density, costs, all those different
10 factors as to why ECR was going to be created and
11 separated off from regular. Is that a fair statement?
12 You may not recall all those.

13 A I'm aware that they did consider many of
14 those factors. I think I've read --

15 Q Did you discuss those factors in your
16 proposal to dis-create, un-create, dissolve, what the
17 Commission did in MC95-1?

18 A What I said was that this in some sense does
19 not preclude those pieces from remaining in ECR. What
20 we are doing is we are eliminating a very limited rate
21 category. This is not a broad-based rate category.
22 This is a rate category that is only available for a
23 limited number of sites, a limited amount of mail.

24 Q Do you know how many pieces in that rate
25 category?

1 (Pause).

2 Q Would it surprise you that it's something
3 over two billion pieces, I believe? If you can
4 confirm that.

5 (Pause).

6 A I don't have here my, I think the number in
7 the commercial area is about 1.8 billion.

8 Q That's not a small amount of mail, is it?

9 A It's not a small amount of mail, no.

10 MR. OLSON: Thank you so much, Mr. Chairman.
11 That concludes our Cross.

12 CHAIRMAN OMAS: Thank you, Mr. Olson.

13 We have no questions from the bench.

14 Ms. McKenzie, would you like some time with
15 your witness?

16 Oh, excuse me. Mr. McLaughlin, sorry.

17 I always forget to ask is there anyone else
18 who would like to cross. Please forgive me.

19 MS. MCKENZIE: Mr. Chairman, since we've
20 been at this for about six hours it's understandable.

21 CHAIRMAN OMAS: Thank you, Ms. McKenzie.

22 Mr. McLaughlin, would you please identify
23 yourself?

24 Mr. McLAUGHLIN: My name is Tom McLaughlin
25 representing Advo. I'll try to keep this very short.

1 CROSS-EXAMINATION

2 BY MR. McLAUGHLIN:

3 Q You were asked earlier, I think both Mr.
4 Volner touched on it and Mr. Baker, about your
5 assumptions on conversion of DAL mailings, elimination
6 of DALs.

7 On page 32 of your testimony you assumed for
8 purposes of your revenue requirement there would be
9 zero conversion, but you say that the Postal Service
10 wants to encourage on-piece addressing.

11 A Yes, that's correct.

12 Q So that's the Postal Service's objective.
13 It wants to encourage mailers to convert from detached
14 labels to on-piece addressing?

15 A That is a primary objective. In the
16 alternative where mailers do not convert, then to
17 actually get some additional revenue.

18 Q If for example, let's just say very
19 hypothetically, the Postal Service said we'd like to
20 create incentive for mailers to convert to lighter
21 than air pieces, floating flats. People who don't
22 convert to floating flats will go to a 1.5 cent
23 surcharge.

24 Would you call that an incentive or would
25 you call that simply a rate premium or a way of

1 generating revenue?

2 Let me state it another way. Isn't the
3 extent to which an incentive -- The extent to which
4 something is an incentive for a mailer to change its
5 behavior depends on the difficulty the mailer may have
6 in converting, doesn't it?

7 A I think I can agree with that, yes.

8 Q Are you at all familiar with what might be
9 involved for an existing detached label mailer to
10 convert from detached labels to on-piece addressing?

11 A I'm not intimately familiar with it but I
12 recognize that mailer, that the standard processes
13 that a mailer must follow may significantly change
14 since these would be individual pieces which may in
15 fact contain loose pieces, might have to somehow have
16 an address on them, inked on, or that somehow some
17 other kind of inserted piece might have to be printed
18 and inserted in a way that --

19 Q Have you by any chance ever seen the
20 production function either for a shared mailer, for
21 example the Shopper, the very long line of inserting
22 equipment that stretches the length of this room where
23 they actually produce their mailings?

24 A I have not personally seen that.

25 Q Just in general, would you characterize that

1 conversion as being easy or difficult? Or do you
2 know?

3 A From personal knowledge, I do not know but I
4 do not assume that it is costless to the mailer. And
5 as I think I've alluded to or stated in some of my
6 responses today, the fact that the Postal Service was
7 aware that there would be costs to the mailer is one
8 of the factors that led to the lower rate increase
9 that was proposed for the standard flats, standard
10 ECR.

11 Q At a very minimum the mailer would have to
12 purchase printer heads and controllers that would be
13 installed into the line of machinery, is that right?

14 A Something would be needed to print an
15 address, yes.

16 Q And it would have to be something which
17 would be able to maintain lock sequence. In other
18 words you couldn't print the packages before you went
19 through production because you might lose walk
20 sequence, is that right?

21 A That is getting into the details of
22 production process that I'm not very familiar with,
23 but I take the point that it would be very important
24 to find a way of implementing this piece of on-piece
25 addressing such that walk sequence would not be lost.

1 I don't know how difficult that would be.

2 Q Is it possible or would you be surprised to
3 learn that in putting on a printer at the end of a
4 line that that would perhaps require slowing the
5 production speed down? Yo couldn't run the machines
6 fast?

7 A Again, this is not something I'm familiar
8 with but printing let's say a wrapper that contains
9 other pieces would presumably be a slower process than
10 let's say printing a detached address label.

11 Q And do you know whether speed of production
12 is an important factor for saturation mailers because
13 of critical cutoff times that advertisers demand
14 between the time they deliver the product and the time
15 it has to be mailed?

16 A I don't know whether the speed of, that
17 amount of, whether that's a more important factor than
18 for other mailers, but in many businesses speed of
19 production is a very important --

20 Q If there were tight windows between the
21 receipt of inserts and the time it had to get out the
22 door to the Postal Service and you had a production
23 slow-down because of addresses that might require
24 acquisition of additional equipment, additional
25 purchase of equipment --

1 Ms. McKENZIE: Objection, Mr. Chairman.
2 This is beyond the witness' expertise. Advo can put
3 on a witness if they want to discuss these production
4 issues. The witness has already conceded that it
5 would not be costless to convert and I'm not sure how
6 much more they're going to get out of the witness.

7 MR. McLAUGHLIN: I will move on.

8 BY MR. McLAUGHLIN:

9 Q NAA refers you in their Cross-Examination
10 Exhibit 2, to I think it was a table that showed
11 different rate increases. They focused in on the 2.9
12 percent increase that you're proposing for saturation
13 DBU flats that do not have detached labels.

14 A Yes.

15 Q Would it at least be fair to say that from
16 our previous discussion which we've cut a little
17 short, that the effective increase for a mailer who
18 had to convert its operations from detached labels in
19 order to get that rate the effective rate including
20 the non-postage costs, would be something greater than
21 2.9 percent?

22 A Absolutely. I mean, I think I've already
23 testified to that.

24 Q One last question then. If you'd refer to
25 NAA Cross-Examination 3, page two.

1 A Is that the inputs list?

2 Q Yes.

3 A Okay. It's easier for me to find it that
4 way.

5 I have it.

6 Q There was some discussion with several
7 counsel with NAA and ValPak referred to the delivery
8 costs for saturation flats, the 5.226 cents.

9 A Yes.

10 Q Is that based on the assumption that there
11 is no conversion of detached labels to on-piece
12 addressing?

13 A My understanding, it is a status quo
14 estimate.

15 Q In other words, it is consistent with your
16 assumption and your testimony for revenue purposes
17 that there would be no conversion?

18 A I believe so, although the specific
19 assumptions, I think that Witness Kelley would
20 probably be better able to explain.

21 Q But that is your understanding, that it's
22 base don the assumption that --

23 A Yes, it was --

24 Q -- conversion of the detached label mailings
25 to on-piece advertising.

1 A I think it was probably an average of costs
2 at the current, as they say, status quo.

3 MR. McLAUGHLIN: That's all I have.

4 CHAIRMAN OMAS: Thank you, Mr. McLaughlin.

5 Is there anyone else who wishes to cross-
6 examine the witness?

7 (No audible response).

8 CHAIRMAN OMAS: Ms. McKenzie, would you like
9 some time with your witness?

10 MS. McKENZIE: Please, Mr. Chairman. Five
11 minutes.

12 CHAIRMAN OMAS: Very good, thank you.

13 (Whereupon, a brief recess was taken).

14 CHAIRMAN OMAS: I do want to announce to
15 everyone that God willing we will have a buzzer again
16 and I don't have to use this hammer. (Laughter). I
17 miss my buzzer.

18 Ms. McKenzie?

19 MS. McKENZIE: We have one question on
20 Redirect, Mr. Chairman.

21 CHAIRMAN OMAS: That's fabulous.

22 (Laughter)

23 REDIRECT EXAMINATION

24 BY MS. McKENZIE:

25 Q During Mr. May's cross-examination of you,

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1 Dr. Kiefer, he asked you a number of questions about
2 pieces that are counted as flats for purposes of RPW
3 but may be costed as partials. Do you remember that?

4 A Yes, I do.

5 Q Uh oh. I might have used up my one
6 question, but I'm just laying a foundation.

7 (Laughter).

8 Q You used as an example an AOL mail piece,
9 correct?

10 A Yes, I remember that.

11 Q What would you call this piece?

12 A It's a CD or DVD mailer, the kind of thing
13 that comes in the mail.

14 Q Do you know whether a purpose of this
15 witness has answered a question on how the Postal
16 Service's revenue and cost systems would treat a CD or
17 DVD mailer?

18 A I have been informed that Witness Smith's
19 response to PSA/USPS P-13-4, subparts H and I have
20 treated how this kind of a piece might be treated for
21 revenue and cost purposes.

22 MS. McKENZIE: That's all we have, Mr.
23 Chairman.

24 CHAIRMAN OMAS: Is there anyone else?

25 (No audible response).

1 CHAIRMAN OMAS: There being none, Mr.
2 Kiefer, that completes your testimony here today. We
3 do appreciate your appearance and your endurance for
4 six hours. You are excused.

5 (Whereupon, the witness was
6 excused.)

7 CHAIRMAN OMAS: This concludes today's
8 hearing. we will reconvene tomorrow morning at 9:30
9 a.m. when we will receive testimony from Postal
10 Service Witnesses Thress and Bernstein.

11 Thank you, and have a good evening.

12 (Whereupon, at 5:24 p.m. the hearing was
13 recessed, to reconvene at 9:30 a.m. on Wednesday,
14 August 9, 2006.)

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REPORTER'S CERTIFICATE

DOCKET NO.: R2006-1
CASE TITLE: Postal Rate and Fee Changes
HEARING DATE: 8/8/06
LOCATION: Washington DC

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the Postal Rate Commission.

Date: 8/8/06

Benedict J. Herbert

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